

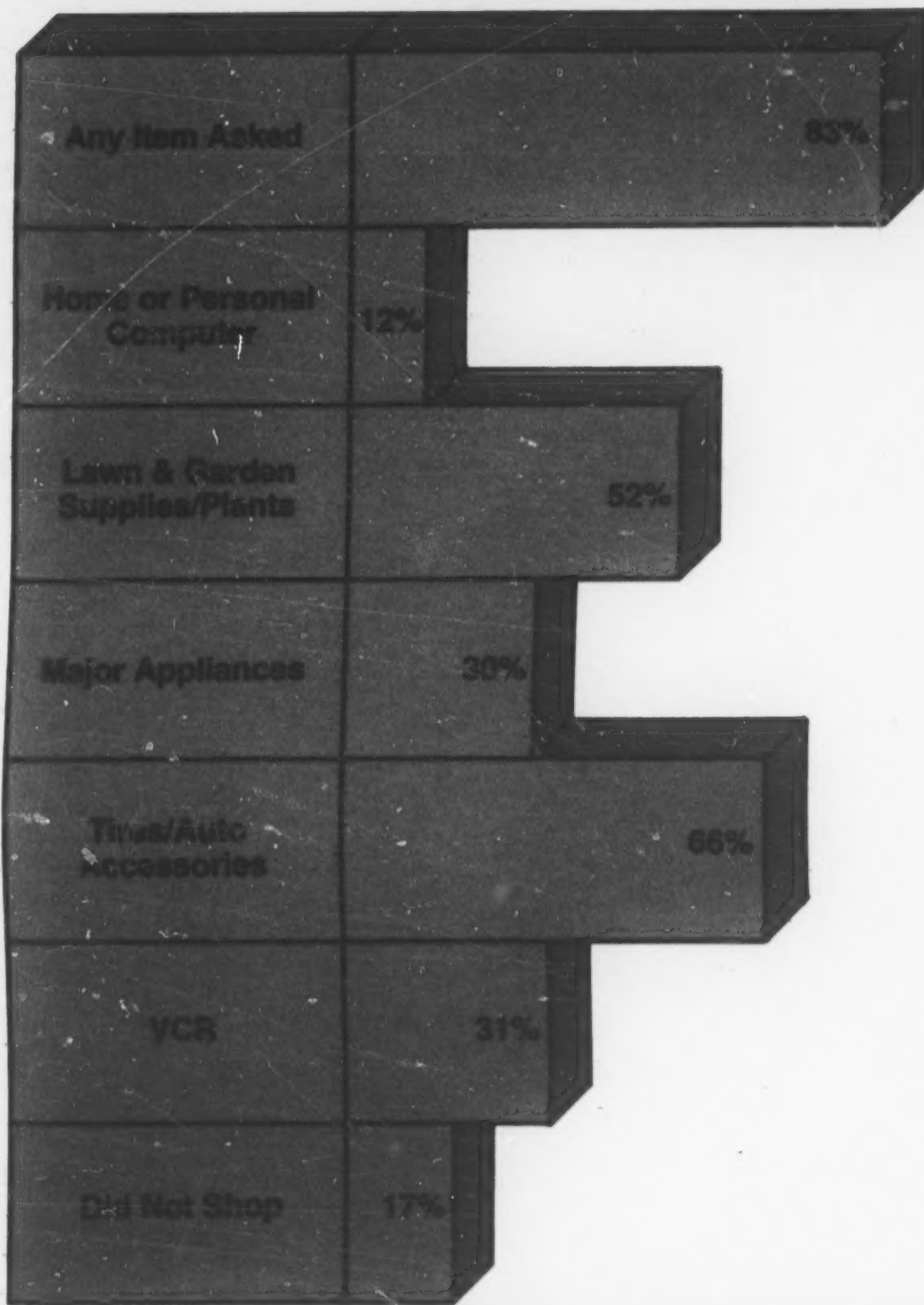
ATLANTA

22nd NMRI CONVENTION

Big Ticket Item Shoppers in Atlanta

12-Month Period

Percentage of Adult Population Who Have Shopped for:



Source: Atlanta Journal-Constitution, February 1987

Smaller Ticket Item Shoppers in Atlanta

3-Month Period

Percentage of Adult Population Who Have Shopped for:



Source: Atlanta Journal-Constitution, February 1987

Atlanta Market Embodies Challenge of Specialty Chains

(Continued from page 97)

price promotions, reports Floyd Haynes, vp and regional manager for Gold Circle's Region 2 stores, which are still called Richway in Atlanta.

Considered understored just three years ago, Atlanta has emerged as the gateway to the Southeast for many specialty retailers. Specialty store operators looking to establish a foothold in the Southeast increasingly anchor in Atlanta.

Amcena, which operates some 1,300 specialty stores, including Millers Outpost and The Lodge in every other region of the nation, wanted to launch its newest concept—Upton's family apparel stores—in the Southeast, said Irving Sacks, senior vice president of finance and administration. The company chose Atlanta over Miami and Charlotte as its launching pad with three stores here in the fall of 1985 and another four units in 1986.

Dayton-Hudson launched its Brandens operation here a few years ago and later expanded that housewares/home textiles format into Miami and Jacksonville. Two other Dayton-Hudson operations tackled the Southeast last year by opening stores in Atlanta.

West Coast-based Mervyn's family apparel stores made the Southeast part of its territory last year with five Atlanta outlets and will add another this year. Hard lines specialist Lechmere leapfrogged from its Northeastern markets into Atlanta with four stores last fall.

This year Pep Boys, which operates in the Southwest and along the

East Coast from Northern New Jersey to Richmond, Va., announced its plans to enter the growing retail population in Atlanta. Between September and December, six of the 20,000-sq.-ft. automotives shops will open here with at least one more slated for 1988. The entry into Atlanta was described as "the beginning of our Southeast market development" by Joe Sarelle, director of construction.

So far, the specialty stores seem to bang away hardest at each other. Late last year, Stereo Village here filed for Chapter 11 bankruptcy protection and has closed its five stores in Atlanta. A company spokesperson said the bankruptcy was a result of internal management problems.

Others in the market point out that Circuit City's arrival with four stores in 1985 heightened the competition among consumer electronics retailers. Earlier this year, off-price apparel retailer Ross stores announced it would shut down its four stores here, citing a saturated retail environment as the reason.

"If it is overstored, I doubt most people have felt it yet," said Peter Cleaveland, regional manager, retail services group at Kurt Salmon Associates. With the number of specialty stores in the area growing, he believes there will be some fallouts, but adds that any saturation of the market by retailers is temporary. The population growth will feed the new retail operations, he said.

Several retailers, however, do consider the market overstored. "Sometimes it is difficult to capture the market share you feel you deserve

because the market is so divided up," said Elise Jaffe, director of real estate for the Conn.-based ladies' off-price chain, Dress Barn. Ironically, the way to improve market share is to open more stores so that more shoppers can get to the outlets, she said.

Dress Barn opened four stores last year to bring its Atlanta total to nine. Now, business is on the upswing, said Jaffe. The market can probably support one additional unit, she added.

While real estate costs have jumped phenomenally since the early 1980s, several chains have been expanding within the market. As usual, the larger chains can get a better deal than smaller operators, but one strip center developer here has seen the average rent go up from \$13.50 per square foot to almost \$19 per square foot in the past three years.

T.J. Maxx, an off-pricer that has been in the market for five years, added two of its family apparel stores last fall, bringing its total to six, reported Bernard Cammarata, chairman. He thinks the market can take another two T.J. Maxx locations and is looking for sites for 1988 openings.

Drug Emporium, the deep-discount operation, opened two more stores in the past 12 months, pushing its presence in Atlanta to 11.

Upton's, which is now facing off with Mervyn's in this market, added four stores last year. Upton's now has seven stores and Mervyn's has five. Upton's is planning two or three more stores here.

At least two of the city's four discounters are back on the expansion trail as well. For Wal-Mart, with 14

stores around the outskirts of Atlanta, the planned expansion moves the chain into the city. Its four store openings scheduled for 1988 include two in Marietta: one on Robinson Rd. and another on U.S. 41. A third is in Stone Mountain and a fourth is in Norcross on Jimmy Carter Blvd.

K mart, which now has 31 stores in the 18-county market area, will push its total to 36 during the next year and a half, according to Roy Johnson, Southern regional manager.

Johnson is one retailer who does not consider Atlanta overstored. He does, however, see the competition toughening as Wal-Mart makes the aggressive move toward downtown and Pep Boys steps in to challenge the chain's automotives business. (Besides its usual auto departments, K mart operates some service centers in Atlanta.)

Johnson and Haynes at Richway both agree that discounters cannot do much to improve their forte—a strong price/promotional stance. They emphasized that chains have to live up to their promises of improved customer service.

"The thing that's going to distinguish any retailer is customer service," said Johnson. "We've got some of the best locations inside and outside of the perimeter. I also feel we've got a super ad program with circulars twice a week."

That leaves service. "When you get to customer service it means you have to hire the right people, happy people," he said. Offering flexible hours to employees who might also be

(Continued on page 102)

ATLANTA

22nd NMRI CONVENTION

Survey Details Price Conscious, Affluent Atlanta Shoppers

Atlanta's Jewelry/ Catalog Showroom Shoppers

30-Day Period

Citizens Jewelry	7	174,000	10%	24,857
Shopped Any Jewelry/Catalog Showroom Listed	—	477,000	26	—

* The average number of shoppers per store was determined by dividing the total number of shoppers by the number of locations. The number does not reflect the actual number of shoppers at each location.

Source: Atlanta Journal-Constitution, February 1987

During a 30-day period this year, 26% of Atlanta adults shopped at one of the two major jewelry/catalog showroom chains in the area. Service Merchandise, which purchased Ellman's in 1985, has 11 stores, which drew 22% of Atlanta adults. Citizens Jewelry, with seven units, attracted 10% of adults.

Atlanta's Electronics Store Shoppers

12-Month Period

CMC Stereo	10**	205,000	20,500
HiFi Buys	14	172,000	12,286
Stereo Village†	6	140,000	23,333

* The average number of shoppers per store was determined by dividing the total number of shoppers by the number of locations. This number does not reflect the actual number of shoppers at each location.

** One additional store opened since the study was completed, bringing the total number of Atlanta locations to 11 as of December 1986.

*** Relatively unstable due to small base.

† Stereo Village has closed its stores in Atlanta.

Source: Atlanta Journal-Constitution, February 1987

About 822,000 Atlanta adults shopped at one of the market's leading specialty electronics chain in the past year. Radio Shack attracted the most shoppers,

Atlanta's Off-Price Apparel Store Shoppers

30-Day Period

Burlington Coats	2	106,000	6%	53,000
Loehmann's	3	107,000	6	35,667
Ross Dress for Less**	4	44,000	2	11,000
Shopped Any Off-Price Store Listed	—	537,000	30	—

* The average number of shoppers per store was determined by dividing the total number of shoppers by the number of locations. The number does not reflect the actual number of shoppers at each location.

** Relatively unstable due to small base. Ross is closing its stores this year.

Source: Atlanta Journal-Constitution, February 1987

Among all adults in Atlanta, 537,000 or 30% shopped at least one off-price store during a 30-day period earlier this year. Marshalls has five stores and attracted 215,000 adult shoppers in the 18-county Atlanta market, representing 12% of all adults and an average of 43,000 shoppers per store.

Cross-Shopping Among Electronics Store Shoppers in Atlanta

12-Month Period

Total shoppers	205,000	452,000	172,000	535,000	140,000
Percent Who Also Shop at:					
Circuit City	75	—	79	41	54
Radio Shack	64	49	65	—	74

* Stereo Village has closed its stores in Atlanta.

Source: Atlanta Journal-Constitution, February 1987

but newcomer Circuit City drew far more shoppers per store. A large percentage of CMS Stereo and HiFi Buys shoppers also shopped at Circuit City.

Shopper Profile at Atlanta Discount Chains

	1,813,000	100%	1,093,000	100%	60%	942,000	100%	52%	463,000	100%	26%	464,000	100%	26%
Male	855,000	47%	483,000	44%	56%	417,000	44%	49%	188,000	41%	22%	184,000	40%	22%
Female	958,000	53	610,000	56	64	525,000	56	55	275,000	59	29	280,000	60	29
Under \$15,000	197,000	11%	106,000	9%	54%	96,000	10%	48%	47,000	10%	24%	57,000	12%	29%
\$15,000-\$19,999	219,000	12	144,000	13	66	116,000	12	53	53,000	12	24	76,000	16	34
\$20,000-\$24,999	216,000	12	141,000	13	65	121,000	13	56	62,000	13	29	60,000	13	28
\$25,000-\$34,999	347,000	19	227,000	21	66	180,000	19	52	90,000	19	26	85,000	18	24
\$35,000-\$49,999	387,000	21	239,000	22	62	205,000	22	53	96,000	21	25	91,000	20	24
\$50,000-\$74,999	295,000	16	152,000	14	52	141,000	15	48	77,000	17	26	59,000	13	20
\$75,000 & over	152,000	9	84,000	8	55	83,000	9	55	38,000	8	25	36,000	8	24
18-24	281,000	16%	165,000	15%	59%	156,000	17%	56%	71,000	15%	25%	79,000	17%	28%
25-34	516,000	28	299,000	27	58	288,000	31	56	149,000	32	29	121,000	26	23
35-44	402,000	22	251,000	23	62	211,000	22	53	83,000	18	20	110,000	24	27
45-54	235,000	13	160,000	15	68	119,000	13	51	65,000	14	28	61,000	13	26
55-64	178,000	10	100,000	9	56	69,000	7	38	41,000	9	23	31,000	7	17
65 & over	201,000	11	118,000	11	59	99,000	10	49	54,000	12	27	62,000	13	31
White	1,411,000	78%	828,000	76%	59%	735,000	78%	52%	375,000	81%	27%	313,000	67%	22%
Non-white	402,000	22	265,000	24	66	207,000	22	51	88,000	19	22	151,000	33	38
Part H.S. or less	410,000	23%	271,000	25%	66%	215,000	23%	52%	95,000	20%	23%	154,000	33%	38%
High School Graduate	611,000	34	369,000	34	60	300,000	32	49	203,000	44	33	148,000	32	24
Part College	385,000	21	225,000	21	59	196,000	21	51	96,000	21	25	97,000	21	25
College Graduate	244,000	13	148,000	13	61	128,000	13	52	62,000	13	25	51,000	11	21
Postgraduate	163,000	9	80,000	7	49	103,000	11	63	7,000	2	4	14,000	3	8
White-Collar	832,000	46%	503,000	46%	60%	454,000	48%	55%	190,000	41%	23%	188,000	40%	23%
Blue-Collar	290,000	16	166,000	15	57	138,000	15	48	82,000	18	28	68,000	15	23
Other Employed	143,000	8	86,000	8	60	89,000	9	62	53,000	11	37	36,000	8	25
Homemakers	205,000	11	155,000	14	76	100,000	11	49	66,000	14	32	63,000	13	31
Other Not Employed	343,000	19	183,000	17	53	161,000	17	47	72,000	16	21	109,000	24	32
Married	1,105,000	61%	691,000	63%	62%	575,000	61%	52%	320,000	69%	29%	265,000	57%	24%
Single	366,000	20	202,000	19	55	196,000	21	54	85,000	18	23	89,000	19	24
Other	342,000	19	200,000	18	58	171,000	18	50	58,000	13	17	110,000	24	32
Own	1,309,000	72%	804,000	74%	61%	672,000	71%	51%	367,000	79%	28%	317,000	68%	24%
Rent	504,000	28	289,000	26	57	270,000	29	54	96,000	21	19	147,000	32	29
Single Family Unit	1,427,000	79%	880,000	80%	62%	741,000	79%	52%	389,000	84%	27%	365,000	79%	26%
Multifamily Unit	386,000	21	213,000	20	55	201,000	21	52	74,000	16	19	99,000	21	26

Source: Atlanta Journal-Constitution, February 1987

ATLANTA

22nd NMRI CONVENTION

Richway Bolsters Customer Service in Atlanta Home Base

ATLANTA — Richway, which merged with Ohio-based Gold Circle last year, is strengthening its customer service stance in its old hometown of Atlanta, thanks to several new chainwide programs.

Scanning, which was already in use in some Gold Circle stores before the merger, will be set up in Atlanta by this fall, according to Floyd Haynes, vice president and Southern regional manager for the chain. That should cut checkout times, once the system is running smoothly.

Lay-aways will be introduced to Richway shoppers in the market by this summer as Gold Circle expands that customer service throughout the

chain, Haynes added.

The merged chain's new management, which includes former Richway executives as well as Gold Circle executives, has also recently restructured the lineup of store level workers to focus more on customer service. Out of eight exempt employees in the store, two, or 25%, are assigned to customer service, said Haynes. In the past, only one of 14 exempt workers was responsible for customer service.

That emphasis on customer service is carried through in training and hiring, Haynes added. The store managers look more for extroverted people when hiring. Plus, the customer service employees must attend and pass manage-

A year ago, just after the merger, Richway implemented the 'End of the Line' program used at Gold Circle. That policy states that there can never be more than three people on a line unless all the registers are open. The chain also added a portable service desk.

ment and customer service training seminars. There they are taught how to handle crises at the service desk and how to deal with customers of various personalities.

A year ago, just after the merger, Richway implemented the "End of the Line" program that was being used at

Gold Circle. That policy states that there can never be more than three people on a line unless all the registers are open. At that time, the chain also adopted a portable service desk. During peak times and on the senior citizen day each week, an auxiliary service desk is set up in the stores to

insure fast check approval and quick response to customer inquiries.

Next year, Richway stores here are scheduled to get the first round of retrofits to fit the new chainwide prototype, Haynes added.

With that design, already up in Ohio and the Carolinas (where Richway has been renamed Gold Circle), departments are color-coded and the toy department is moved closer to kids' wear to create a children's world.

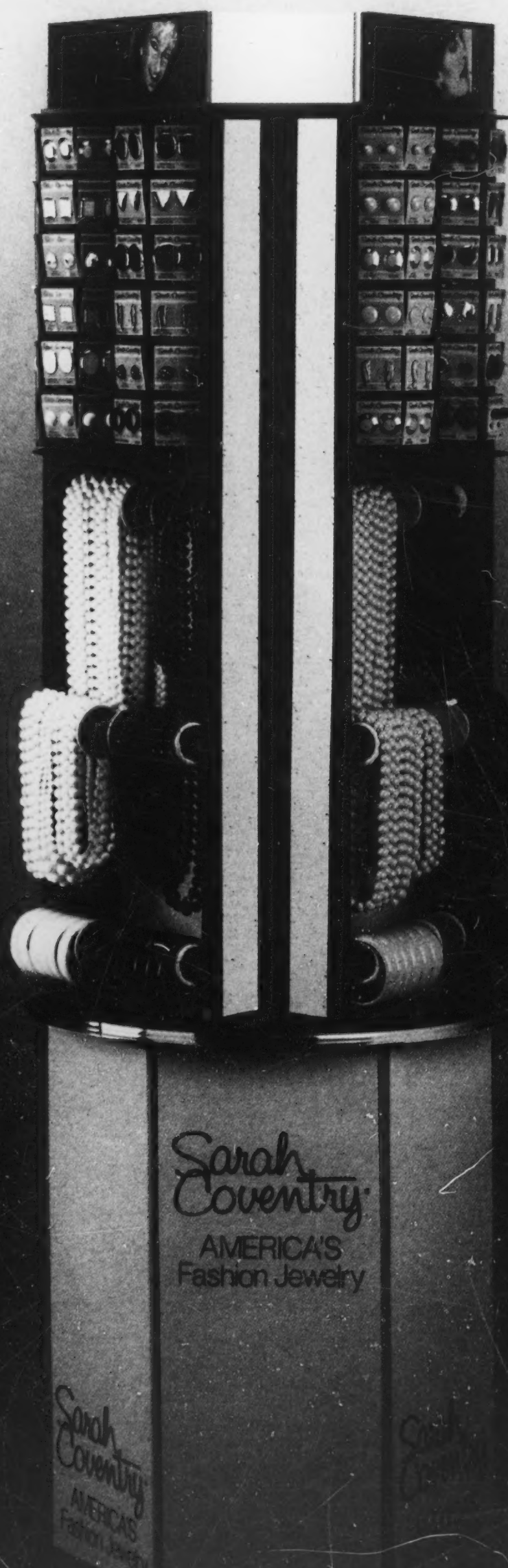
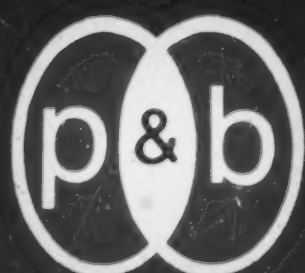
The only question is whether Richway, which has the largest proportion of shoppers to stores among discounters in the Atlanta market, will be renamed Gold Circle here when that new look is unveiled.

Big name, big quality, and now — Color!

Sarah Coventry®
AMERICA'S Fashion Jewelry

Ask your customers who Sarah Coventry is, and 92% of them will be able to tell you — quality fashion jewelry. Attractive to look at. Attractively priced. Attractive to mass merchandisers.

- Free floor displays that take up a little bit of space, but make a big impression.
- Key price points to bridge your low-end fashion goods and your 14 kt. gold.
- Top quality and styling with a lifetime guarantee.
- Pre-ticketed merchandise.
- Service and unique in-store promotion by Sarah Coventry's own "blue ribbon" secretaries.
- A full line of jewelry.
- Free of charge, in-store and TV commercials.
- Special home demonstration program.



Atlanta Embodies Specialty Threat

(Continued from page 100) students or homemakers helps morale as well as competition in Atlanta for store-level labor.

"Customer service is the way to battle the specialty stores," said Haynes. He admitted that discounters don't compete with all specialty stores, but added that, in Atlanta, "the pie has been sliced pretty thin."

Richway, which was headquartered in Atlanta until it became part of Gold Circle last year, positions itself as the upscaler among discounters here. The merged company has further sharpened that niche by targeting specific categories such as apparel, home textiles, toys and home entertainment where the chain is more dominant in terms of assortment, Haynes explained.

"We can't really take on the home improvement specialists or automotive chains except in the high velocity items," he added.

Some programs borrowed from Gold Circle or instituted since the merger promise to help the customer service stance (see separate story).

Richway's new rain check reducing program is unique to Atlanta, said Haynes. The policy says that if the store runs out of a sale item it will take the same percentage off the price of a similar item—a program that is paying off, he said. Some 60% to 70% of people who would ordinarily get rain checks are opting for the substitution; they do not want to leave empty-handed after making the trip, he said.

Another new service tactic, a "teleservice program" used in Atlanta and other Gold Circle Region 2 stores, has gotten a great response from consumers. Shoppers who dial 25 on one of the in-store service phones ring cordless phones carried by one or two sales-floor associates.

"I truly believe that there's not going to be a lot of difference in assortments and promotions," said Haynes, explaining the nature of the competition Gold Circle faces. "The reason why shoppers go to one retailer over another is going to be customer service."

Target Leads Discounter Expansion in Pacific Northwest

(Continued from page 1)

relatively ignored, as retailers concentrated primarily on such "hot" markets as Southern California, Florida and other Sunbelt areas.

But with many of those markets—Los Angeles in particular—beginning to reach a retail saturation point, discount retailers are now looking closer at the Pacific Northwest. And although discounters are by no means ready to give up on the lucrative California market yet, areas like Beaverton, Ore., and Bellevue, Wash., are beginning to draw increased attention from expanding discount, off-price and promotional chains like Target, ClothesTime, T.J. Maxx and Mervyn's.

However, retailers venturing into this market will not find complacent competition. Regional retailers such as Fred Meyer, G.I. Joe, Bi-Mart, Costco and Pay Less NW dominate this healthy area. And a number of other chains, including K mart, Marshalls and Price Savers, have preceded the newcomers into the market.

The most riveting and extensive expansion plan to hit the area was revealed in March when Target announced its plans to place 35 stores in Washington and Oregon by 1992 (see DSN, March 30, page 2).

According to the Sherwood Group, developers for Target, a planned blanketing of the area is now almost necessary for the retailer's success in the market, because of the existing competition and economies of scale associated with advertising costs.

"We're seeing retailers coming in now and doing major penetration," noted Sherwood Group president and chairman, Sherwood Korssjoen.

"I definitely think there is a niche that they [Target] can fill," said Ralph Siegel, an analyst in the Seattle office of Touche Ross, the accounting and management consulting firm.

In penetrating the market, Minneapolis-based Target strategically looked for areas in the Portland and Seattle markets where it could "get the dominant share by being in the right locations," explained Dan Pebbles, director of retail marketing for the Sherwood Group.

Part of Target's planning strategy rested with careful evaluation of the various regions in the Pacific Northwest, according to Pebbles. If an area was strong, in terms of good sales po-

Store Counts of Leading Discounters In Pacific Northwest

Chain	Total Stores	Oregon	Washington	Total Pac NW
Pay Less NW	219	40	37	77
Fred Meyer	94	40	24	64
K mart	2,086	22	32	54
Target	252	12	23	35
Bi-Mart	34	30	4	34
ClothesTime	272	4	13	17
Ross	126	5	7	12
G.I. Joe	11	11	0	11
Mervyn's	180	5	6	11
Costco	38	4	7	11
T. J. Maxx	228	1	1	2
Price Savers	6	0	2	2
Marshalls	266	NA	NA	NA

* Store openings planned between 1988 and 1992
NA: Not available

Source: DSN research

tential and weak competition, Target chose to go into the location right away, Pebbles noted. But in weaker, more competitive and less critical areas, he said Target planned for later development.

Although the reason for the relatively sudden appeal of the Washington/Oregon area is hard to pinpoint, Korssjoen pointed out that the "available market share in this community is significantly greater" than in other parts of the country.

Also working to increase the areas' popularity has been the recent real estate scouting by out-of-state developers. Korssjoen said these firms have checked out much of the area and then passed on their findings to their nationwide retail clients.

Target's move into the Pacific Northwest will not only increase the Dayton-Hudson subsidiary's current store count of 252, but is also expected to bring in other retailers on its coattails, since all of the Target stores will be built in new locations—primarily strip centers. According to Pebbles, other chains, including Marshalls, T.J. Maxx and ClothesTime, are interested in following Target into many of the locations.

However, a number of these off-price chains said they are not going to

hold up their own expansion plans while waiting for Target, since the first wave of Target stores are not set to open until July of 1988.

Rapidly expanding ClothesTime—with a current store count of 272, and plans to have 800 to 1,000 stores in the next five years—already has four stores in Oregon and 13 in Washington. According to a real estate representative for the Anaheim, Calif.-based chain, the retailer will continue to develop stores in the Northwest.

The off-pricer is opening a store in Oregon this month and three more outlets in Washington. Future plans call for another four stores in Washington and three more in Oregon.

Natick, Mass.-based T.J. Maxx, a subsidiary of the Zayre discount department store chain, entered the market just last year with one store in Washington. The retailer has since opened an Oregon outlet, with a third area store set to open this month in Vancouver, Wash. Its entrance into the Pacific Northwest represents just the start of the off-pricer's move to the West Coast. According to a company spokesperson, T.J. Maxx plans on also opening 10 stores in California this year (see story, page 1).

The timing of the move west for 228-store T.J. Maxx was dependent

on the opening of a distribution center last year in Evansville, Ind., and the ongoing goal of opening 35 new stores a year.

Hayward, Calif.-based Mervyn's, another division of the Dayton-Hudson department store company, has also taken a stand in the area with five stores in Oregon and six in Washington. According to the company, one new Washington store already opened this year in Bellevue, and two stores are set to open this summer in Everett, Wash., and Salem, Ore.

Although the promotional retailer is opening stores in the Pacific Northwest, a spokesperson said this area is not currently the company's focus for growth. Instead, of 24 Mervyn's stores slated to open this year, the majority will be located in the state of Michigan.

Wakefield, Mass.-based Marshalls entered the Portland/Seattle area in 1984. The 266-store off-pricer is "actively looking to in-fill stores in both Portland and Seattle," according to Pebbles, whose company is also a developer for Marshalls.

These relatively new-to-the-area retailers will meet stiff competition from Fred Meyer, the 94-store Portland-based discount chain with widespread consumer appeal throughout the Northwest. Fred Meyer, which went public last year, currently has 40 stores in Oregon and 24 stores in Washington. This year, the company plans to open additional stores in Marysville, Wash., and two in Oregon—in Klamath Falls and Portland.

According to the Sherwood Group's Pebbles, Fred Meyer is already preparing for the entrance of Target by increasing its advertising and "making its stores look more upscale." Pebbles said Fred Meyer is also looking to beat Target to some locations, and is "shoring up its defenses and looking to do battle."

Bi-Mart also has established penetration in the Pacific Northwest, but the Eugene, Ore.-based company's plans call for development in some of the states' smaller communities.

"We feel there are a lot of potential sites in Washington and Oregon," explained Don Leber, advertising director for the 34-store chain. Although Leber said the discounter is already in some of the areas Target will be invading, Bi-Mart's growth

(Continued on page 106)



Target, like other discounters entering the Pacific Northwest, will face stiff competition from regional retailers like G.I. Joe, Costco and Pay Less Drug. (DSN photos)

PACIFIC NORTHWEST

22nd NMRI CONVENTION

Seattle Market Holds Great Potential for Retail Expansion

SEATTLE — Surrounding the eastern side of Washington's massive Puget Sound waterway is the bulk of the state's population and growth, with Seattle at its hub.

Located in King County, Seattle combines with other area cities, like Renton, Bellevue, Kent and Auburn, to comprise some 31% of the state's population, or 1.37 billion people.

Like Portland, this area has also worked in recent years to diversify its economic reliance on just a few industries. Although Boeing and the timber industry still occupy a majority of the workforce, Pacific Rim trade, financial businesses and many service industries are creating varied forms of employment.

With its large harbors and ports, the Puget Sound area is especially seeking to develop its trade with the Orient. Recent restrictions by the United States have caused some worry among the import/export businesses in the area, but area analysts expect little short-term problems from this action.

Currently, the average 1986 income per household for King County, according to es-

timates, is \$34,757. And when combined with the nearby counties, this area managed to spend nearly \$10 billion at retail during 1986, with \$1.1 million going to general merchandise, while \$638 million was spent on apparel. When not spending dollars at retail, typical leisure activities for this area include hiking, skiing, boating, swimming and hunting.

Future growth for the region is expected to run south from Seattle, along Lake Washington, to and including the Tacoma area. While several malls exist in these areas, developers expect more strip centers and small community malls to hold the bulk of the future growth.

Leading Discounter TV Advertisers In Seattle Market

Fred Meyer's dominant position in Seattle TV expenditures illustrates the chain's dominant position in the market.

Chain	1985	1986	% Change
Fred Meyer	\$992,900	\$1,243,600	25%
Lamont	—	597,300	+ Infinite
Ross Stores	220,900	519,300	135
Pay 'n Save	698,300	351,200	- 50
Best Products	—	317,700	+ Infinite
K mart	207,600	105,800	- 49

Source: Television Bureau of Advertising from Broadcast Advertisers Reports data

Target Leads Expansion in the Pacific Northwest

(Continued from page 105)

plans will focus on markets that are generally smaller than those eyed by Target.

Costco, the Seattle-based membership warehouse club chain, currently operates 38 warehouses—four in Oregon and seven in Washington, with an eighth planned to open this year. The only membership club competition Costco has faced here to date has been from Price Savers, which has only two warehouse clubs in Washington.

Troy, Mich.-based K mart has been in the area some time and has established 54 stores. But, despite this penetration, area analysts said the market has not been a strong one for K mart.

However, the retailer said it had just opened an outlet in Port Orchard, Wash., and has another store under construction as well as two more sites currently under consideration.

Among the leading specialty retailers here, Toys "R" Us just announced the opening of its fifth outlet in the Puget Sound area. This location, near Federal Way, combines with stores in Bellevue, Lynnwood, Tacoma and Southcenter to give the Rochelle Park, N.J.-based retailer a strong foothold in the market.

But, while retail growth in the area is strong now, analysts here do not expect the retail opportunities to last forever, especially after chains like Target take up potential development sites.

It's time to
CELEBRATE!



Ramstad

Answers:

1. a, 2. c, 3. b, 4. b, 5. b

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Ethnic Shoppers Alter Merchandising, Marketing Plans

(Continued from page 1)

chandising efforts by discount chains here. In two years, sales per household jumped over 25% from \$15,178 in 1984 to \$19,353 in 1986, according to figures in *Sales and Marketing Management*. The average Miami consumer spends more each year than shoppers in Atlanta, Dallas and Denver.

To capitalize on this spending binge, retailers here have announced plans to add more stores.

L. Luria will add two more stores by year-end for a total of nine showrooms. Miami newcomer BJ's Wholesale Club will open the doors of its second membership warehouse club this month. Zayre opened eight stores last year for a total of 29 Miami locations.

K mart district manager Frank Lucas said he has given the discount-er's Troy, Mich., headquarters a list of five store site suggestions to supplement the 12 already standing in the Greater Miami area. Two combination K mart/Builders Square (K mart's warehouse home center subsidiary) stores were opened here last year.

Despite these proposed and actual store openings, current statistics from *The Miami Herald* market research department (see chart below) indicated that discount department stores have been slowly losing market share. Dade County adults who shopped at K mart fell off from 45% in 1983 to 37% in 1985, the most recent year for which figures are available. Zayre experienced a 2% decline to 36% during the same time period.

Catalog showrooms, off-pricers and department stores fared better. L. Luria & Sons' share of the adult shoppers rose from 16% in 1983 to 19% in '85; Service Merchandise experienced a three-point increase to 18%.

Off-pricer Marshall's climbed three points to 11%, while department store chains such as Burdines and Jordan Marsh registered strong increases. Capturing market share is becoming synonymous with attracting the Cuban shopper.

Miami is the heart of Dade County. Between 1970 and 1985, the percentage of Latinos within that county rose from 24% to over 43% of the pop-

Dade County Population: 1970-1985

Year	Total Population	Latin Population	Percent Latin
1970	1,267,792	299,217	23.6%
1975	1,437,800	473,500	32.8
1980	1,625,781	580,994	35.7
1983	1,884,800	785,100	42.0
1985	1,979,600	853,200	43.1

Source: U.S. Commerce Department; Bureau of the Census; Strategy Research Corp.

Country of Origin of Head of Household Among Latin Miami Residents

	1970	1975	1978	1980	1983	1985
Cuba	87.3%	84.7%	80.2%	79.9%	84.0%	78.1%
Central America	0.8	1.7	1.5	4.3	7.3	9.3
South America	4.9	2.4	5.9	8.2	5.1	8.2
Puerto Rico	2.9	6.9	7.4	5.7	2.3	3.0
Spain	3.1	2.4	2.2	1.5	0.3	0.7
Other	1.0	1.9	2.7	0.4	1.0	0.7

Source: Strategy Research Corp.

Miami Annual Household Income: 1985

Income Group	Latin	Anglo
Under \$6,000	11.7%	7.5%
\$6,000-\$11,999	13.8	11.6
\$12,000-\$17,999	13.2	12.2
\$18,000-\$23,999	12.1	12.2
\$24,000-\$29,999	9.9	11.6
\$30,000-\$43,999	15.7	18.3
\$44,000 and Over	23.6	26.6
Mean Average Income	\$24,998	\$30,920
Median Average Income	23,598	27,363

Source: Strategy Research Corp.

Where South Florida Shops

	Dade County			Broward County		
	% of Adults Shopping That Store			% of Adults Shopping That Store		
	1983	1984	1985	1983	1984	1985
Discount Stores						
K mart	45%	42%	37%	56%	46%	46%
Zayre	38	38	36	33	29	36
Richway	2	2	2	24	25	27
Marshall's	8	9	11	12	10	16
Catalog Showrooms						
Service Merchandise	15	16	18	21	16	18
Luria	16	17	19	13	10	13
Best	12	12	11	12	9	12
Department Stores						
Sears	36	36	33	42	45	44
Burdines	36	35	51	39	39	47
Jordan Marsh	27	25	31	34	33	34
JC Penney	21	23	32	31	32	37
J. Byrnes	21	20	25	23	24	31

Source: The Miami Herald; Rite Market Research

ulation, according to the Census Bureau and Strategy Research, a media-sponsored research organization, bringing the total number of Latin people to 853,200. Preliminary estimates for January 1987 update that number to 936,200.

The Cuban minority—which is quickly becoming a Miami majority—has several virtues that make these customers a prime target for retailers.

Among Hispanics, Cubans were described as having the highest income and education level and the lowest unemployment rate, according to a 1985 minority study conducted by Management Horizons, the research arm of Price Waterhouse.

To attract these Hispanic shoppers, retailers are adding merchandise that appeals to Cuban customers.

Lucas, K mart's district manager in Dade County, said the chain has had to rework its assortments in records, stationery, housewares and clothing to meet Cuban needs.

Retailers are adding merchandise to attract Hispanic shoppers, and Cubans in particular.

"Latins use different kinds of cooking utensils," said Lucas. "One example is the rice pot. If nothing else were available, they could make due with a typical pot, but chances are they would go somewhere else to find the specific item."

"Latins also like to drink strong coffee in demitasse cups. We didn't carry them in the past," Lucas said. Miami K mart stores have gradually increased the Latin cookware section of their housewares department to its current 25 linear feet.

Leonard Luria, president of catalog showroom operator L. Luria & Sons, said his company has made similar changes in housewares merchandise. His showrooms have eliminated Lenox, Hummel and other lines that do not fit into a typical Latin household.

"You don't need many different items to sell to the Latin market," said Luria. "If they like chicken and rice, don't give them steak. Ethnic like to buy from people they feel comfortable with—and we are an ethnic store. Store help in Spanish areas are primarily Spanish themselves," said Luria.

But keeping well-stocked in Latin music is a little more difficult than having the right cookware, especially as the proportion of Central and South Americans in the Miami Hispanic community rises.

"Each country has its own kind of music and to keep up to date in each means carrying an extensive assortment of Latin records and tapes," Lucas of K mart said.

In the stationery department, the greeting cards assortment had to include a selection of Spanish verse.

"At first the card company we work with tried to take an American card and translate it word for word and that just doesn't work at all. We ended up insulting our customers. Some things do not translate. Now we have a manufacturer that deals just in Latin greeting cards," Lucas said.

The Hispanic male tends to have a
(Continued on page 110)

Ethnic Consumers Alter Chains' Merchandising, Marketing

Leading Discounter TV Advertisers
In Miami Market

Chain	1985	1986	% Change
Eckerd	\$2,190,200	\$2,823,000	29%
Zayre	765,400	1,118,600	46
Gray Drug	224,200	509,000	127
Dollar General	308,900	409,900	33
K mart	572,200	232,900	- 59
L. Luria & Sons	193,400	197,300	2
Woolworth	—	158,000	+ Infinite
Service Merchandise	515,800	124,800	- 76
Marshalls	573,900	108,400	- 81

Source: Television Bureau of Advertising from Broadcast Advertisers Reports data

(Continued from page 108)
smaller frame than non-Hispanic whites, so the size assortment in men's wear was altered, Lucas said. In the women's apparel department, a broader array of colored hosiery and accessories was brought into Miami stores. "The Latin woman is very style conscious, probably more so than the white shopper. She needs to color coordinate her outerwear with everything else she wears and tends to like brighter colors," Lucas added.

Advertising poses its own set of problems. While there are only one or two primary newspapers for the non-Hispanic white population, there can be nearly a dozen Latin

newspapers within a given region, not one of them dominant.

Drug store chains drive the television advertising, while Zayre and Dollar General (formerly Eagle stores) are also among the four largest discounter spenders, according to recent statistics from the Television Bureau of Advertising (TvB). The sudden 127% rise in Gray Drug expenditures was no doubt affected by Rite Aid's purchase of 81 stores in southern Florida during the fourth quarter of 1986.

K mart's 59% drop in television advertising spending appears to reflect the chain's overall decrease in spot market TV spending while increasing national TV campaigns.

Spanish-speaking radio stations often take a firm political stand. Retailers must be careful not to get entangled in a political fray by appearing to endorse a particular view via the radio station where they advertise.

Another medium for reaching the Hispanic population here, radio, also presents some unique problems. Spanish-speaking radio stations, while not as numerous as newspapers, often take a firm political stand both in terms of happenings here and abroad. The retailer must be careful not to get entangled in a political fray by appearing to endorse one view or the other via where it places its advertising.

While retailers agree that Miami is one of the toughest markets in terms of competition from other chains as well as numerous Hispanic mom and pop stores, it appears to be worth the fight.

"This is a saturated market, but we're blessed that the Latins continue to move in," Lucas said. "I recently heard some statistics that 7,000 people move to the state of Florida every day. People are stacking on top of one another," he added.

As long as the population continues to grow and the number of retailers remains fairly constant, sales and profits should be strong. With central Miami at the saturation point, the western (inland) edge of the county is where Lucas expects the growth to occur.

"There's nowhere else to go in Miami. East is Everglades and everywhere else is saturated," he explained.

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Marketing

TV Spending Propels Ad Budgets to New Highs

Nationwide DSN Report
Led by Circuit City, the Virginia-based consumer electronics chain, and Wal-Mart, the giant Arkansas-based discount department store retailer, the 25 leading discount store television advertisers increased their TV ad expenditures by 22% last year.

At the same time, half the discount stores interviewed in a recent survey said they expect to increase their total advertising budgets—by a mean of 5.2%—in 1987. They said their TV advertising expenditures this year on would rise to 8.3% of total consumer ad spending, from 7.7% in 1986.

Clearly, discount stores are betting that a heavier investment in advertising will help them maintain and increase their share of the retail market. And, more than ever, they are staking a larger portion of the ad budgets on television to reach the consumer of today (and tomorrow) with their message.

Total TV expenditures by the top 25 discount TV advertisers rose to \$238.2 million last year, from \$195.4 million in 1985. Circuit City posted a 160% increase in TV spending to \$16.3 million, lifting the nation's largest CE chain to fourth place on the top TV advertiser list.

Wal-Mart made dramatic gains in TV advertising last year, investing \$30.2 million in the electronic medium. TV expenditures by the fast-growing discount department store chain were up 88% over 1985. The chain closed a huge spending gap on No. 1, K mart, which maintained its premiere ranking with a 19% gain in TV expenditures to \$39.9 million.

Increase in Network Spending

Reflecting the use of more institutional and image commercials, the bulk of K mart's increase was in network TV spending, which went up 62.3% to \$26.3 million. Spot market spending by the nation's largest discount chain fell off by close to 21%.

Toys "R" Us was the only other top advertiser to register any network TV spending, according to the Television Bureau of Advertising (TvB), which compiles its TV spending figures from Broadcast Advertisers Reports data. However, with declines in both national network and spot TV expenditures, the Rochelle, N.J.-based toy chain registered the largest percentage decrease in TV expenditures among the top 25 spenders. Toys "R" Us cut back on its TV spending by nearly \$3.7 million last year, dropping four notches from fourth to eighth on the list.

After Circuit City and Wal-Mart, the other leading percentage gainers were Best Products, up 55%; Bradlees, up 53%; Caldor, up 37%; Lechmere, up 33%; Crazy Eddie, up 29%; Meijer, up 28%; T.J. Maxx, up 24%; and The Federated Group, up 20%.

As a group, the five top-spending discount department store chains, K mart, Wal-Mart, Target, Hills and Zayre, spent 42% more on TV commercials last year than they did in 1985. The top five CE specialty chains in TV ad spending, Highland Superstores, Circuit City, Silo, The Federated Group and Newmark & Lewis, increased their TV spending by 34.9% last year.

Leading Discount Store Television Advertisers: 1985-1986							
	1985			1986			1985-1986
	Network TV	Spot TV	Total TV	Network TV	Spot TV	Total TV	% Change
K mart	\$16,221,800	\$17,184,400	\$33,406,200	\$26,332,900	\$13,583,700	\$39,916,600	19
Wal-Mart		16,076,700	16,076,700		30,179,500	30,179,500	88
Highland		15,988,500	15,988,500		18,830,200	18,830,200	18
Circuit City		6,270,500	6,270,500		16,286,000	16,286,000	160
Target		11,843,00	11,843,000		12,405,500	12,405,500	5
Burlington		9,322,900	9,322,900		11,047,800	11,047,800	19
Marshalls		10,603,700	10,603,700		10,750,200	10,750,200	1
Toys "R" Us*	3,294,000	10,780,600	14,074,600	2,056,800	8,365,600	10,422,400	- 26
Hills		10,234,800	10,234,800		9,819,600	9,819,600	- 4
Zayre		8,234,100	8,234,100		9,320,500	9,320,500	13
Silo		8,122,800	8,122,800		7,933,600	7,933,600	- 2
Federated Group		6,270,600	6,270,600		7,513,100	7,513,100	20
Fretter		5,550,700	5,550,700		6,587,400	6,587,400	19
T. J. Maxx		5,176,000	5,176,000		6,395,000	6,395,000	24
Caldor		4,266,600	4,266,600		5,858,200	5,858,200	37
Bradlees		3,177,700	3,177,700		4,852,600	4,852,600	53
Newmark & Lewis		4,355,100	4,355,100		4,776,400	4,776,400	10
Fred Meyer		4,529,000	4,529,000		4,552,000	4,552,000	1
Crazy Eddie		2,793,000	2,793,000		3,601,600	3,601,600	29
Rose's		3,198,100	3,198,100		3,352,300	3,352,300	5
Venture		3,444,000	3,444,000		3,279,300	3,279,300	- 5
Syms		2,917,400	2,917,400		2,942,100	2,942,100	1
Meijer		2,212,900	2,212,900		2,822,800	2,822,800	28
Best		1,756,200	1,756,200		2,728,200	2,728,200	55
Lechmere		1,533,600	1,533,500		2,041,600	2,041,600	33
Total Top 25	19,515,800	175,842,900	195,358,600	28,389,700	209,824,800	238,214,500	22

* Does not include syndicated barter advertising on television. In 1986, Toys "R" Us had estimated billings on this type of program amounting to \$1,757,600. No comparable figure is available for 1985 since monitoring of this activity was begun in 1986.
Source: Television Bureau of Advertising from analysis of Broadcast Advertisers Reports data.
Co-op activity by these advertisers is not included—BAR generally credits this activity to the manufacturer.

Three chains dropped out of the top 25 list this year. Target's acquisition of Gemco erased the West Coast chain from the top spenders. Service Merchandise, which spent \$8.3 million on TV ads in 1985, cut back by 75% to just \$2.1 million last year, according to the TvB figures. K mart's discount drug store subsidiary reduced its TV spending from \$2.1 million in 1985 to \$1.7 million last year.

Worthington, Ohio-based Gold Circle did not make the top 25 list in either of the past two years. Yet, the discount chain showed its increased commitment to TV advertising with a 109% gain in TV ad spending to \$839,600 in 1986.

While TV ad spending is growing at most of the major discount chains, discounters' expenditures on newspaper and magazine ads has been declining slightly. According to a recent survey by the Chicago research firm Leo J. Shapiro & Associates for DSN's sister publication, *Chain Store Age/Executive*, discount chains spend the highest proportion of their consumer advertising dollars on newspaper and magazine ads, but less than a majority of their total ad budgets is spent in this area. From 1985 to 1987 (projected), average discounters' newspaper and magazine expenditures have slipped from 49% of their total budget in 1985 to an ex-

pected 47.3% of budget this year.

Direct mail, which garners the second largest portion of discounters' ad budgets, has been rising: 28.6% of total consumer ad spending in 1985; 29.2% in 1986; and an anticipated 30.1% in 1987.

In '85 and '86, average expenditures by discounters were slightly higher for radio advertising than for television. In 1987, discounters expect to devote 8.3% of their ad dollars to TV commercials vs. 7.5% for radio.

Compared to discount stores, apparel specialty stores spend a larger, but still declining, percentage of their ad budgets in newspapers and magazines. These stores, according to the survey, reported spending 63.6% of total ad bucks on newspapers and magazines in 1985; 61.4% in '86; and expect to devote 59.4% of their ad budgets to this area in '87.

Direct mail has increased from 12.4% of total ad spending in 1985, to 13.6% in 1986 and an anticipated 14.5% this year. Both radio (9.1%) and point-of-purchase materials (9%) will rank ahead of TV ad spending (5.6%) this year at apparel specialty chains. But, TV spending has been on the rise at these stores, climbing from just 3.1% of total ad expenditures in 1985.

The Shapiro survey also showed that discounters ranked second to de-

partment stores in the percentage of total dollar sales volume spent on consumer advertising. The 30 discount stores in the survey projected they would devote a mean of 2.9% of sales to their total advertising in 1987. The 30 apparel stores said their advertising budget would constitute about 2.6% of total sales this year.

The study compared advertising budgets and expenditures among discount stores, apparel specialty stores, department stores, drug stores, supermarkets and home centers.

Six out of 10 discount stores in the survey said their advertising expenditures rose in 1986 compared to 1985. They pegged that increase at an average of 6.6%. When asked about planned increases in 1987, five out of 10 discount stores said they would increase ad expenditures this year—by an average gain of 5.2%.

Apparel specialty stores pretty much followed the discount stores' trend in the number of chains increasing their ad budgets in 1986 and planning to in 1987. But, their average increases far outpaced all other categories of retailers in the study. Apparel specialty retailers pumped, on average, 16.3% more dollars into their ad budgets in 1986, and expected to increase total ad spending an average of 12.1% this year.

Retailers Shift from Preventing Losses to Arresting Thieves

By Jack L. Hayes
Special to DSN

Retailers are placing greater emphasis on apprehensions, found an informal survey of loss prevention directors prompted by the release of *An Ounce of Prevention*, the annual study of loss prevention in the retail industry.

This year's version of the study, which was released by the National Mass Retailing Institute (NMRI) and Arthur Young, reports that the national average of overall shrinkage for 113 companies (representing 30,000 locations) remained at 1.8% of sales for the last two consecutive reporting periods.

Responding companies attributed approximately 42% of the inventory shrinkage to employee theft, 31% to customer shoplifting, 23% to paperwork errors and 4% to vendor theft.

Because retailers have no way of accurately measuring the components that cause shrinkage, apprehensions can be used as a barometer to test these retailers' perceptions of the causes of shrinkage. At the same time, retailers can identify a few of the latest trends in loss prevention.

Nine major companies (representing 749 individual store locations) were contacted and a consistent answer was heard from the majority of these companies: Each of the loss

prevention directors said a greater emphasis is being placed on apprehensions.

In fact, seven out of the nine responding companies reported an increase in their dishonest employee apprehensions and the group's total increase over last year's number of apprehensions was 10%.

One director for a nationwide chain explained the move to apprehension and away from loss prevention in this way: "The approach to loss prevention has been diluted by a number of factors we believe responsible for our more aggressive approach to catching dishonest employees. For example, the tight payroll-to-sales budget has caused fewer people to be on the sales floor. This situation gives both shoplifters and dishonest employees more opportunities to steal."

"Pre-employment screening is another problem. Our hiring standards are not as effective as they should be. I believe this is caused by the problems we are having with recruiting people. So, without question, we have become more aggressive [in apprehensions] than we were in the past two years."

Shoplifting apprehensions also increased, even though 62% of the reporting companies said they use electronic article surveillance (EAS) in all or part of their stores. These statistics showed shoplifter apprehensions rose 5.5% from last year.

The increases in shoplifting apprehension percentages ranged from a high of 60% for one company to a low of 1% for another. The company reporting the greatest increase had not increased its staff. "We have one of the strongest anti-shoplifter initiatives that can be applied," said the company's director. "Employee training has improved greatly. We target problem stores and give employees certificates of appreciation when they help by reporting suspected shoplifters."

Another company said that a reduction in its floor staff has negatively affected the preventive aspects of its program. Others credited their employee awards programs with encouraging apprehensions. The company reporting the smallest increase in apprehensions said the value of goods recovered in each case has increased dramatically.

Other trends reported by these retailers reflect a greater sophistication in attacking and dealing with their problems:

- High-tech security appears to be a shrinkage control tool that is here to stay.
- Point-of-sale investigative reports are providing better information concerning dishonest cashiers and fraudulent refunders.
- EAS is considered an effective anti-shoplifting device.
- Some stores now operate computerized shrinkage and auditing software programs.
- The popularity of closed-circuit television cameras for assisting in internal theft investigations now ranks high on many investigators' "wish list" of security tools.

Retailers continue to place great store in their employee training programs. Self-teaching audio-video training programs are widely used throughout the industry. Participants in the NMRI/Arthur Young study rated employee training programs to be the most effective shrinkage control device available.

Jack Hayes is a security expert for Arthur Young.

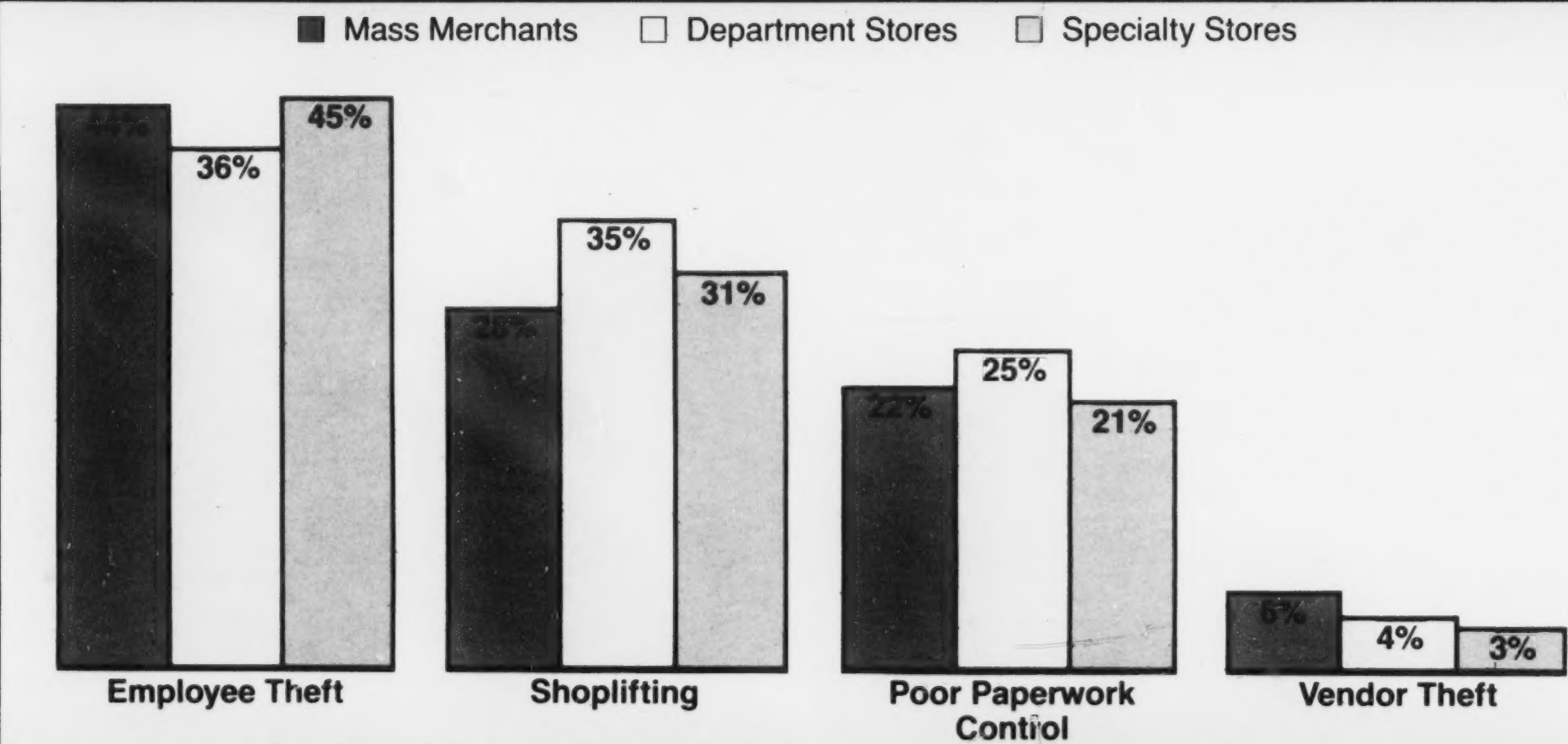
Shrinkage Results by Retail Category*

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Shrinkage: % of Sales 1984	1.9	2.1	1.6	1.8

Allocation of Loss-Prevention Expenditures

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Other Electronic Equipment	4	5	6	5
Internal Guards	31	47	14	29
Payroll Other than Guards	27	14	29	24
Incentive Programs	2	2	2	2
Other	7	4	6	6

Reasons for Shrinkage by Store Type*



* Mass Merchants: Discount, general merchandise, drug, and all variety chains with multiple departments, central checkout and limited selling staff.

Department Stores: Multidepartmental retailers offering departmental checkout with highly visible selling service. This category includes specialty stores with the principal characteristics of department stores.

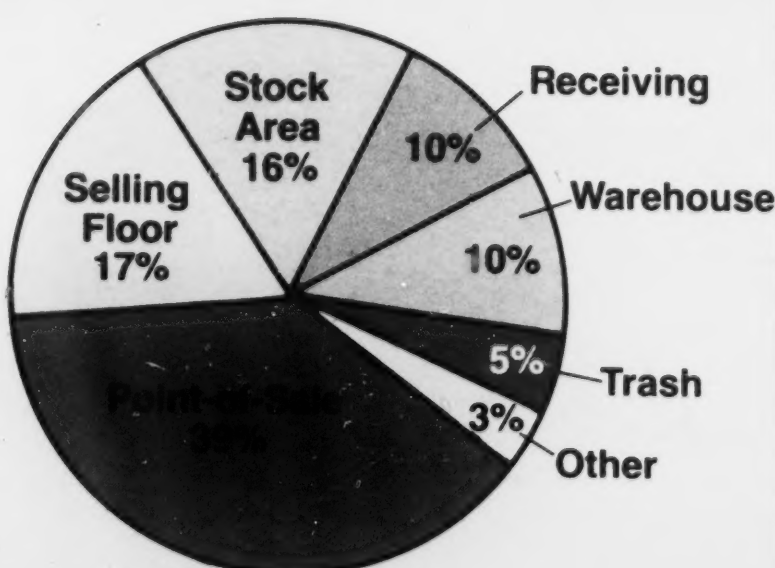
Specialty Stores: Few departments, central checkout, generally with 7,500-sq. ft. or less of selling space.

Source: Arthur Young & Company; NMRI

Retailers Attribute Most Shrinkage To Internal Factors



Retailers Believe Most Employee Theft Occurs at the Point-of-Sale



Source: Arthur Young & Company; NMRI

22nd NMRI Convention

Hard Lines

For Discounters, Upscaling Includes Hardware

By Donald Longo

Nationwide DSN Report

In the beginning, there were hardware stores. These mostly independent operations featured convenient neighborhood locations where consumers could get personalized service from someone who knew the difference between a T-square and a T-hinge.

News Analysis

Then, as discount department stores began phasing out their hardware department lessees to operate the areas themselves, the home center came along. These home improvement stores generally offered less service than the neighborhood hardware outlet, but certainly much more than the typical discounter. At home centers, shoppers could find a wide assortment of top quality name brand products—but at prices usually higher than discounters would offer.

The home improvement warehouses burst on the retail scene in the late '70s and early '80s. These 80,000-sq.-ft. to 100,000-sq.-ft. retail warehouses aggressively advertised their unmatched selection at price points as low as any discounter.

In the face of this competition, it is not surprising that the traditional

Many discounters are revamping hardware, adding more selection of name brands and higher quality merchandise.

hard lines oriented mass merchandisers have spent the mid-1980s paying more attention to soft lines. But, while discount department stores may be settling for a slightly smaller share of the overall hardware market, they certainly are not abandoning it altogether.

In fact, many discounters are revamping their hardware departments, in particular adding higher quality merchandise that carries a wider margin and encourages repeat business.

"We no longer just get the convenience purchase," said one discount store buyer interviewed at the National Home Center Show earlier this year. "People come to us because we have a good selection, name brand products and low prices."

(Continued on page 212)



Hardware department at Bradlees, Norwalk, Conn.: Watch for discounters to increase their emphasis on name brand hardware and tools as American consumers appear willing to pay for higher quality products. (DSN photo)

Year-Round Sales to Drive Tomorrow's Toy Departments

By Josephine Fiamingo

Nationwide DSN Report

Discount toy buyers can look forward to even tougher decisions in the coming years as a deluge of new products taxes their ability to operate profitable departments.

News Analysis

More product choices, available year-round by manufacturers, are creating confusion for retailers in deciding on the right mix to maintain leaner inventories.

Further, earlier advertising campaigns accompanying the dizzying array of high-tech toys are adding these costs to the price retailers have to pay for the product.

While retailers and distributors report stronger toy business in the first eight weeks of this year than ever be-

fore, they are quick to point out that capitalizing on this increase in year-round toy business is dependent upon whether retailers can continue to determine the right product mix.

After all, a toy's life generally only lasts anywhere from eight months to two years, and that is only if it sells when first introduced. A mistake can sit on a shelf for a long time.

Out of the 150,000 individual toy products produced each year, according to the Toy Manufacturers of America (TMA), 5,000 to 6,000 of those involve new technologies and styles. Only a relatively small percentage become success stories. A product that sells in the first half of the year might not sell in the second half—and what sells in the second half might not sell next year.



High-tech toys like Teddy Ruxpin, atop an endcap at a Chicago Venture, are a gamble if the retailer misreads rapidly changing trends. (DSN photo)

Despite all the new innovations, basics will always remain in the product mix in discount stores. These toys are still perceived by consumers to be a value purchase and at the same time provide higher margins than the aggressively promoted and highly competitive products.

But as the newer, high-tech innovations become higher ticket items, they will leave consumers with fewer dollars to spend on basic items. Some of the most popular toys of recent years have been sold to consumers at close to or below the retailer's cost. The more advanced technologies now in vogue are likely to further increase the cost of toys.

Looking ahead, narrow markup on the "hot" toys is sure to continue. The

(Continued on page 212)

MARKETWATCH

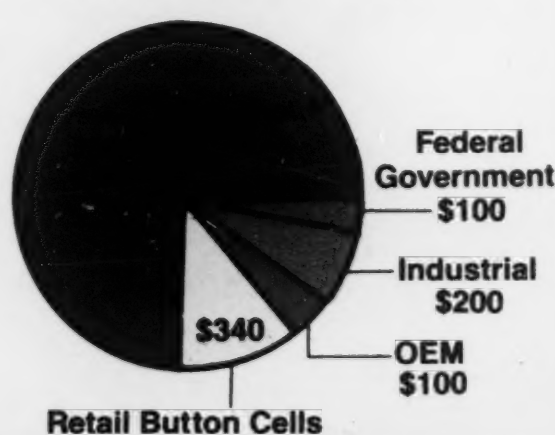
FULLERTON, Calif. — HomeClub, the discount warehouse home improvement chain subsidiary of Zayre, recently opened two new outlets in California and Washington. The new 100,000-sq.-ft. HomeClub in Stockton, Calif., is the chain's 23rd warehouse club in that state. The chain's second warehouse club in Washington opened in a 104,832-sq.-ft. building in Lynnwood, bringing total chainwide store count to 30.

DALLAS — Discount stores have increased their share of the total \$2.9 billion battery market to 35% last year, from 32% in 1981. Food, drug, and hardware/home center/lumber stores followed with 27%, 18% and 8%, respectively. Additionally, the average U.S. household consumes 32 batteries per year, according to data

The 1986 U.S. Battery Market

(In Millions)

Total: \$2.9 Billion



* Six popular household sizes (D, C, AA, AAA, 9-volt and lantern batteries) make up 96% of all retail battery sales.

Source: U.S. Commerce Department

compiled from A.C. Nielson and NFO Consumer Purchase Diary research by Rayovac, the battery supplier based here. The study shows that a heavy user household consumes 92 batteries per year. This heavy user group constitutes 20% of all U.S. households and consumes 71% of all batteries sold. Heavy user households are profiled as:

- Young married couples;
- With children six to 12 years old;
- With young adults (13 to 20);
- Female head of household purchases 35% of all batteries;
- Female purchaser is typically price/value conscious.

The research also reveals that most batteries are purchased for radios/radio cassettes/cassette recorders (31%, up from 28% in 1981), flashlights (16%, a decline from 21%), and toys/games (17%, down from 20%).

CHICAGO — The National Hardware show, held here Aug. 9 to 12, will be the largest in its 44-year history, according to Pat Dolson, group vice president and show manager. Hardware and allied lines, which will be located on all three levels of McCormick Place East, is nearly sold out in its 436,000-sq.-ft. building. Overflow vendors in this category will be exhibiting in McCormick Place West. The lawn and garden, outdoor power equipment and outdoor living category will occupy more than 335,000 sq. ft. of space in the new McCormick Place North facility, a 211% increase over last year. Houseware exhibits will be featured in the McCormick Place West facility for the first time. The automotive aftermarket division will exhibit on the lobby level of McCormick Place North this year.

RETAIL MANAGEMENT DEVELOPMENT SERIES

Employers Can Take Measures to Control Health Care Costs

By F. Kevin Tylus



Touche Ross & Co.

Does it sound inconceivable that your company's cost for health care benefits could equal its after-tax profits? That may appear impossible to believe, but it was one finding in a study recently conducted by the Harvard Business School. The study of the Fortune 500 industrial companies and the 250 largest nonindustrial companies showed the cost of health care benefits equaled nearly 25% of after-tax profits from 1981 to 1983. The researchers predicted that, at the present rate of increase, these costs could equal profits by 1992.

A look at the numbers and trends reveals that such a prediction is far from outlandish. Contributions paid by employers for employee health insurance surpassed \$100 billion in 1985 (see accompanying exhibit 1). That figure represents a 106% increase over the 1980 expenditure of \$49 billion, four times the 1970 level of \$12 billion.

The per-employee gauge shows a 7.7% increase in 1986 over 1985 medical cost expenditures, found a survey by an insurance broker (see accompanying exhibit 2). This represents a national average cost of \$1,857 to the employer for each employee. Employers with more than half their workforce under collective bargaining paid about 28% more, or \$2,555 per employee, than did employers with less than half their employees under collective bargaining: \$1,764 per employee.

The cost for health care today consumes approximately 10% of this country's total output. Even with the enrollment gains in 1986 by cost-conscious Health Maintenance Organizations (HMO's) and Preferred Provider Organizations (PPO's,) health care costs failed to decline to 9% of the Gross National Product as was predicted by some industry analysts. By the year 2000, the cost of medical care may reach a predicted 12% of the GNP. Moreover, the rate of health care inflation was about 6% in 1986, or about double that of inflation, as measured by the consumer price index.

Relief May Be on the Way

While the costs for health care benefits have escalated, the business of providing these services has been chang-

Exhibit 2 Medical Costs to Employer by Region		
Region	Total 1986 Medical Cost Per Employee	Increase Over 1985 Costs
Pacific	\$2,147	7.5%
Mountain	1,815	6.2
North Central	2,046	7.4
South Central	1,784	8.1
New England	1,828	9.9
Mid-Atlantic	1,898	8.1
South Atlantic	1,692	7.7
National	1,857	7.7
Less than 50% collective bargaining	1,764	—
More than 50% collective bargaining	2,255	—

Source: Johnson & Higgins

ing radically. And those changes may spell some relief for employers.

For instance, hospitals, physicians, and alternative providers such as HMO's, PPO's, walk-in care facilities, and entrepreneurial enterprises are battling industry environment issues to gain market advantages. Relief may result from: increased competition in the industry; excess capacity for hospital-based care; price sensitivity; demand for high quality, convenient, and attractive service modes and the efforts of government and employers to reduce the cost of providing or arranging for health benefits.

The excess capacity in the hospital setting and the increasing saturation of providers in alternative settings translate to a greater say for the purchaser—government and employers in particular—in the selection of providers and the prices to be paid for health care services.

The industry has seen numerous initiatives to control health care costs.

The most visible of these, perhaps, is the federal government's efforts to control expenditures of the Medicare program. The government hopes to lower costs, in part, by paying fixed rates for each hospital admission, foregoing per diem cost-based reimbursement and eliminating most automatic cost pass-through payments.

Employers are taking these kinds of steps to control costs:

- **Employees incur copayments and deductibles:** Most employers are including a deductible in their benefits programs, with a \$200 deductible being common. Many employers recently have begun copayments and, though they may not like passing the cost on to employees, they feel it is necessary, because the cost for health care has become unacceptable to bear alone. Benefits programs are invoking restraint wherever possible.
- **Second opinion programs:** Most employers are encouraging second opinions on prescribed surgeries, with

Exhibit 3 Private Insured Non-Medicare Enrollment			
	1980	1985	1990*
"Traditional" Indemnity	96%	72%	5%
Managed Care	0	15	25
PPO	0	4	40
HMO	—	—	—
Independent Practice Arrangement	1	4	22
Staff/Group	3	5	8

* Projected
Source: Sanford C. Bernstein & Co./InterStudy

many providing incentives for a second opinion. It is common to find a policy imposing a penalty if a second opinion is not obtained.

• **Managed care arrangements:** Second surgical opinions are a start in managing care arrangements. Beyond that, employers are taking a more active role in monitoring the entire health care contract, often hiring utilization review companies to police the type, duration and cost of care given to employees. But managing employees' health care includes more criteria, like requiring certain procedures be performed in outpatient or same-day treatment facilities. Employers are collecting data on their employees' use of services and comparing it to anticipated norms or required output. They are also using the data to shed light on usage and cost predictability.

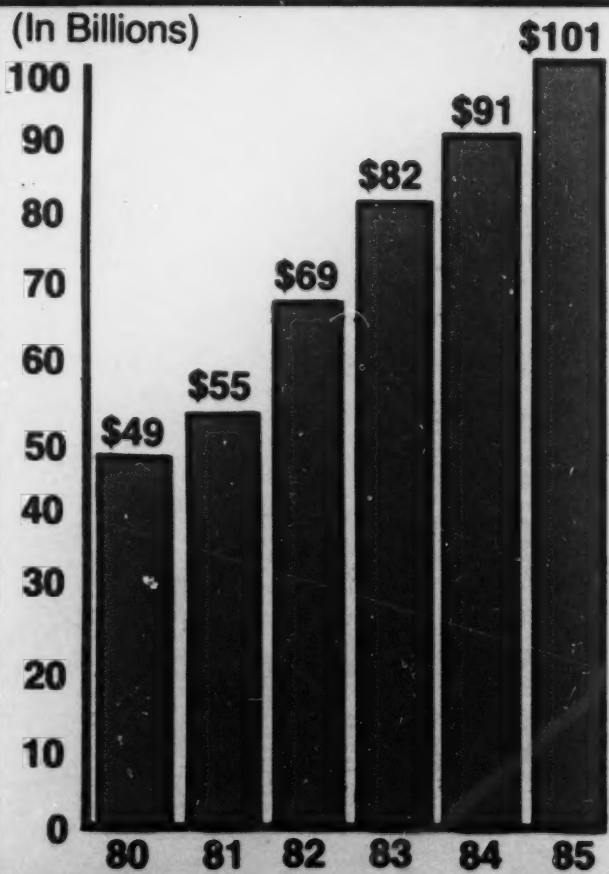
• **HMO contracts:** Employers are still skeptical about whether HMO's, organizations that arrange for and sometimes provide care directly, reduce costs. Generally, employers contend the HMO premium cost is too similar to their indemnity rates, referred to as "shadow pricing," to see any significant reduction in premium cost. Critics also charge that HMO's are not investing in the promotion and maintenance of good health.

But HMO's have enrolled nearly 10% of the United States population, and the percentage runs even higher in some regions. And many HMO's are responding to employer demands. Enrollment increased to more than 23 million last year, a 25% jump from June 1985 to June 1986, shows an InterStudy update. The number of HMO's increased more than 50% to 595 during that year. A 1985 poll by Louis Harris & Associates and the Kaiser Family Foundation found that, of employers with at least 10% of their workforce in HMO's, enrollment has increased anywhere from 26% to 45% since 1982. Also the study found little evidence that members are dropping out.

• **PPO arrangements.** A coalition report said local and regional PPO development will continue its appeal to employers. Various business coalitions in health care issues support this position. Many employers said provider-purchaser contracts give employers more flexibility and involvement in health care issues than do traditional indemnity or HMO arrangements. Generally, employees are allowed to select a nonparticipating provider, but at a reduced benefit. Some say that no two PPO's are alike and that any creative arrangement offering to reduce employers' cost yet boost providers' business is worthy of serious trial. Likewise, more employer-provider direct contracts are emerging and being tested as a cost-control measure.

(Continued on page 240)

Employer Contributions For Employee Health Insurance



Source: U.S. Department of Commerce

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May 11, 1987

Questions

Indicate whether each question is True or False.

- The cost of providing health care has more than doubled since 1980.
True False
- The national average cost for health care benefits per employee is over \$3,000.
True False
- The increasing saturation of providers is one reason health care costs may level off.
True False
- The Federal government has been a prime agent in keeping costs down.
True False
- Sharing the cost of health care benefits with employees is not a common practice.
True False
- Some health care plans make a second opinion on surgery mandatory.
True False
- Data collection on health care services is an important step in managing costs.
True False
- Enrollment in HMO's is increasing steadily.
True False
- HMO's have been shown to be significantly less costly than standard health care programs.
True False
- Flexible benefit provisions reduce costs while allowing employees to choose the coverage they want.
True False

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Employers Can Control Health Benefits Costs

(Continued from page 232)

These arrangements are being tried by unionized and non-unionized employers, self-insured or not, and by for-profit and not-for-profit health care providers. They are not limited to progressive markets such as Southern California. In fact, one northeastern Pennsylvania community hospital recently entered into its fifth direct employer contract, with each of the five slightly different from the others. Employers intend to achieve cost savings and data management reports in exchange for volume commitments.

• **Flexible benefits:** Many employers are allowing employees to decide which benefits they want from an array. For example, an employee might opt for a major medical plan over a dental plan. These pick-and-choose benefit plans enjoyed their greatest growth in 1986, concludes a report by a leading benefits consulting firm. Flexible benefits plans may help reduce overall costs and may provide more of what each employee needs for the same cost.

• **Self-insurance:** The movement toward self-insurance is helping employers save the payments to insurance companies that fund the insurance companies' reserved requirements. In many locations of the country, at least two-thirds of employers have switched to self-insured status. This kind of arrangement does not necessarily reduce benefits costs, but it allows the employer to earn interest on funds that otherwise would have contributed to the insurer's reserves.

A Warning Is in Order

Implicit in all of these initiatives is the desire to maintain a high quality of health care

for employees. Health care providers are asked to produce convenient access to quality services at a reasonable cost. Yet our health care system has become capital-intensive. For example, just a few years ago, the state-of-the-art CT scanner cost nearly \$1 million. That piece of equipment is now considered less effective for certain imaging studies than the newer magnetic resonance imaging machines, which can cost almost twice as much as CT scanners. Yet, when considering program alternatives to reduce cost, employers must maintain the quality of care.

The Jury Still Remains Out

It will take at least three years—and as long as five years—to know whether employer initiatives have reduced the real rate of increase in health benefits costs, the cost to the employer and employee. The vehicles by which health care benefits are provided definitely are changing rapidly and presumably will continue to do so. As the third chart shows, even if health care industry analyst Sanford Bernstein & Co. and InterStudy are only half right, the health insurance business will be transformed into a very different business by the early 1990s. (see exhibit 3 on page 232). Alterations to benefits plans and employer demands will be part of the transformation.

About the Author

F. Kevin Tylus is manager in the New Jersey offices of Touche Ross. Besides assisting hospitals, health care providers and purchasers with business decisions and planning, Touche Ross provides extensive benefits consulting services.

Sales Agencies Association Elects 1987 Slate of Officers

CHICAGO — Richard F. Skelly, president, Meteor/Skelly, Larchmont, N.Y., has been elected president of the National Association General Merchandise Representatives (NAGMR), the Chicago-based professional association of sales agencies representing leading manufacturers to the drug, mass merchandise and food trade.

Skelly has served as vice president, secretary, treasurer and regional vice president of NAGMR. He serves on the board of directors of Nappe-Babcock Inc., Richmond, Va.; Regina Company, Rahway,

N.Y.; and Westport Laboratories, Fairfield, Conn.

NAGMR has also elected other officers for 1986-87. Burt B. Houseworth, Keystone New York Corporation, Oradell, N.J., has been named vice president; Edward S. Gleason, Elias Shaker & Co., Park Ridge, Ill., has been named treasurer, and Arthur Z. Silver, Silver Marketing Group Inc., Cherry Hill, N.J., has been named secretary.

NAGMR also elected its members to serve on the board of directors and regional vice presidents for the coming year.



NAGMR officers for 1987: Arthur Silver (left), secretary; Richard Skelly, president; Burt Houseworth, vice president, and Edward Gleason, treasurer.

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FOR NON-FOOD RETAILERS

Spring, 1987

Why (And How) drug chains are courting the c-food shopper

Nonfood chains nurture
snack food growth
with more ads,
more space & more displays



How Genovese Drug adds
"pazazz"
to its candy departments



SPECIAL REPORT:
**Sales of groceries
surge to
\$10 billion plus in
nonfood outlets**

Candy sales grow as consumption
increases & nonfood chains
expand mix & ad features



Food For Thought

Food trends from 1981 through today

5

News Basket

Granola candies provide new snack sale opportunities

6

Sami: Category seasonality report

The foods and nonfoods to promote this winter



8

Growth Trends in Non Food Grocery Sales

Food and grocery related product sales will rise 6% in 1987 to over \$10 billion as drug and discount chains lure shoppers with price & convenience.

11

Convenience foods: Drug's newest "core category"

Why Walgreen's, Eckerd, SuperRx and others are expanding their c-food mix

15

Snack Foods: Nonfood's growing "impulse" category

How discount and drug chains are generating plus sales with new merchandising strategies

21

Candy: Traditional stepchild category gets new life

Emphasis is now on adult as well as children's market; sections are expanding

27

Best Selling Categories of Winter

The chart below lists the best selling categories in food stores for the months of December, January and February.

The rankings are based on a special Sami study tracking seasonality growth trends by category. The categories that made the list had a base index of at least 110 for the three years ended in December 1985, and January and February 1986.

Knowing the index makes it easier for food, snack and household supply buyers in drug and mass merchandise stores to identify the categories that will turn the fastest for a planned seasonal promotion.



FOODS AND GROCERIES: BEST SELLERS OF WINTER

(Averaging three year index ranking)

December		January		February	
Foods	Index ranking	Foods	Index ranking	Foods	Index ranking
Canned cranberries	374	Maraschino cherries	249	Packaged chocolates	155
Novelty candies	326	Dates	249	Hot cereals	149
Dates	259	Cake decorations	238	Oriental foods	147
Baking nuts	250	Coconut	206	Canned tomatoes	145
Canned onions	240	Corn syrup	202	Canned soup	145
Packaged chocolate covered fruits	236	Molasses	200	Milk modifiers	144
Piecrust mix	214	Baking chocolates	192	Canned kidney & misc. beans	144
Corn Syrup	213	Cream of tartar	191	Diet canned vegetables	139
Canned potatoes	210	Canned meats	191	Bouillon	139
Packaged solid chocolates	207	Cake flours	180	Canned wax beans	138
Brown sugar	202	Confectioners sugar	177	Diet canned fruits	137
Stuffing mixes	199	Baking nuts	175	Canned vegetables	136
Maraschino cherries	194	Brown sugar	170	Dehydrated soups	134
Chocolate creams	193	Cocoa	166	Canned carrots	134
Dry yeast	189	Baking extracts	164	Canned chili	133
Marshmallows	185	Spanish olives	160	Tomato sauce	133
Coconut	183	Chili sauce	158	Tomato puree	133
Baking chocolate	180	Cider	157	Tomato paste	129
Pie fillings	179	Canned onions	157	Canned sauerkraut	129
Packaged hard candy	179	Canned dry beef	147	Canned beets	127
Croutons	174	Cocktail mixes	147	Canned spinach	127
Confectioner's sugar	174	Canned sauerkraut	147	Diet desserts	127
Ripe olives	172	Canned shrimp	144	Canned corn	125
Sterilized milk	170	Canned cherries	144	Crackers	124
Cider	166	Dried apricots	140	Canned green beans	124
Molasses	165	Canned cranberries	144	Honey	124
Spanish olives	165	Canned beans	134	Hominy grits	122
Nonfoods		Nonfoods		Nonfoods	
Heatable bags & wraps	285	Rock salt	344	Rock salt	291
Fireplace logs & bricks	257	Fireplace logs & bricks	330	Fireplace logs & bricks	225
Disposable containers	167	Flash bulbs	213	Light bulbs	126
Rock salt	164	Batteries	156	Facial tissues	121
Coffee makers	156	Heatable bags & wraps	149	Bath additives	119
Rodenticides	142	Waxed paper	143	Rodenticides	117
Flash bulbs	138	Disposable containers	142	Shoe polish	116
Batteries	131	Coffee makers	134	Scouring cleansers	112
Oven cleaners	125	Plastic flatware	120	Coffee filters	112
Aluminum foil	124	Light bulbs	113	Laundry soaps	111

Source: SAMI Seasonality Study

Mass Merchandising Groceries

Promotional activity sparks grocery product sales in drug and discount store outlets. Grocery sales will top \$10 billion in 1987



Grocery sales in nonfood outlets are expected to increase about 6% this year to an estimated \$10.2 billion market.

Grocery product sales through drug, discount and general merchandise and variety stores, which rose 5% in 1986 to an estimated \$9.6 billion, are expected to go up about 6% in 1987 to approximately \$10.2 billion.

The growth is due to the aggressive use of food and grocery related promotions as traffic builders as well as to expanded assortments of snack and convenience dry and refrigerated grocery sections in drug stores, and expanded space for snacks, household chemicals and other grocery related departments in discount stores.

Right now drug stores generate the bulk of grocery related sales in the mass market arena. According to *FM* estimates based on an analysis of Dept. of Commerce merchandise line sales trends, drug stores in 1986 generated nearly \$4.8 billion in grocery product sales in 1986 or close to 50% of all grocery sales in nonfood stores.

Discount stores, for the same pe-

riod, generated about \$2.7 billion in grocery product sales while general merchandise, variety and department stores captured the remainder of the sales, about another \$2.1 billion.

Our estimates include sales of packaged grocery items like cereals, salad dressings and cake mixes as well as sales of candies, packaged

alcoholic beverages, pet food items, soaps and household cleaners and detergents as well as paper goods like toilet and facial tissues.

However, they exclude the sales of soft drinks and snack foods like potato chips that are store delivered rather than warehoused.

In the mass merchandise retail segment, drug chains are doing

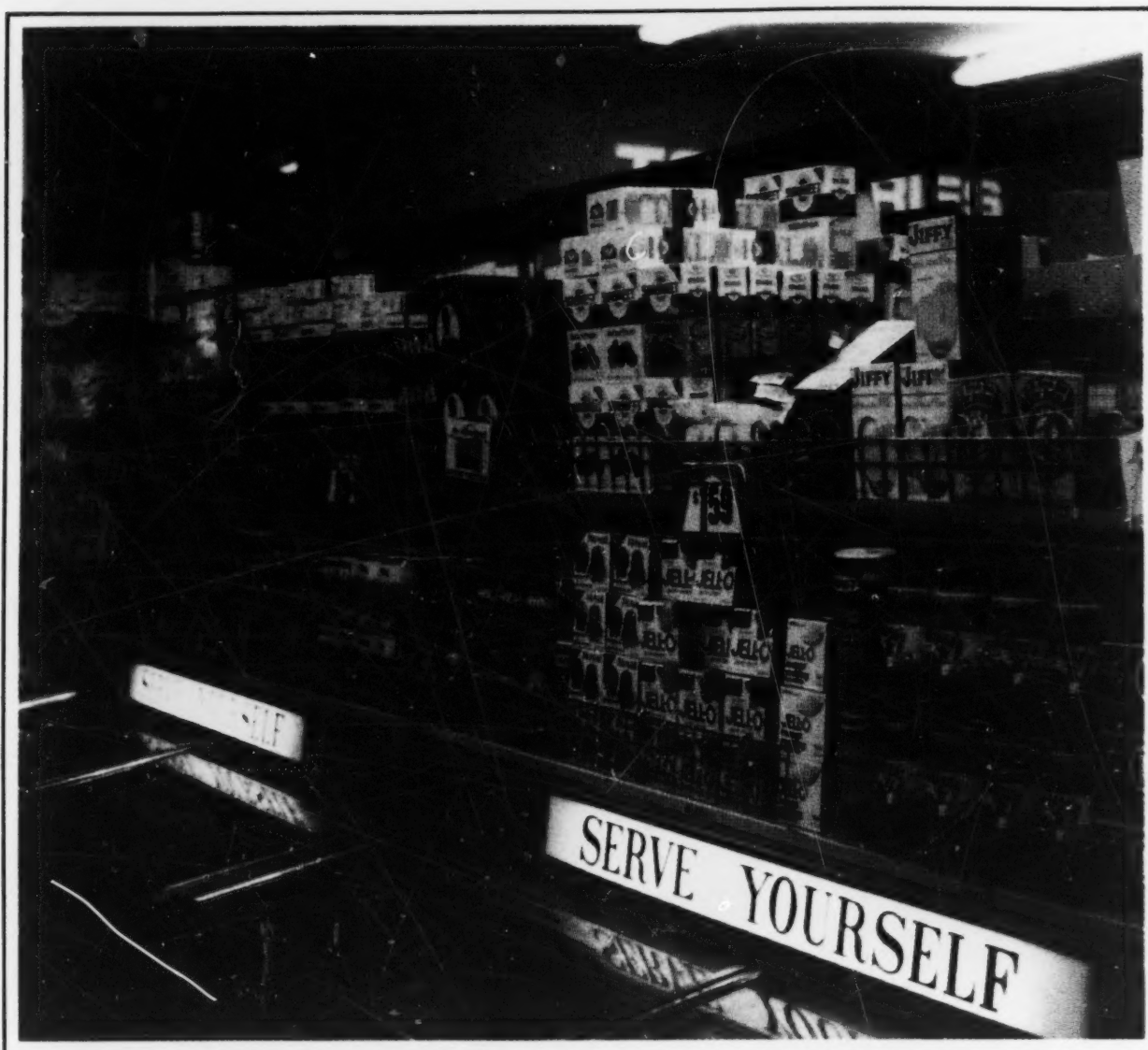
*General Merchandise Stores: Grocery Sale Trends

(retail sales in billions)

Category segment	1982	1985	1986	1987 Est
Packaged groceries excluding direct store delivered snacks	\$3.1	\$3.5	\$3.5	\$3.5
Packaged alcohol	\$0.426	\$0.733	\$0.833	\$0.926
Paper goods	\$0.0154	\$0.269	\$0.297	\$0.335
Soaps/Household cleaners	\$0.079	\$0.105	\$0.112	\$0.119
Pet foods	\$0.052	\$0.066	\$0.095	\$0.103
Total grocery sales	\$3.8	\$4.7	\$4.8	\$5.0

*Discount stores account for approximately 56% of all general merchandise grocery sales. The rest is generated in department stores, variety stores & miscellaneous general merchandise stores.

Source: Malcolm Knapp Inc., New York



Drug store operators stress that their everyday food assortments are a "convenience" to their customer.

Drug Stores: Grocery Sale Trends

(retail sales in billions)

Category segment	1982	1985	1986	1987 Est
Packaged groceries excluding direct store delivered snacks	\$1.2	\$1.6	\$1.8	\$1.9
Packaged alcohol	\$1.2	\$1.6	\$1.7	\$1.8
Paper goods	\$0.492	\$0.828	\$0.936	\$1.1
Soaps/household cleaners	\$0.254	\$0.323	\$0.345	\$0.371
Pet foods	\$0.032	\$0.051	\$0.056	\$0.062
Total grocery sales	\$3.2	\$4.4	\$4.8	\$5.3

Source: Malcolm Knapp Inc., New York

more to expand their everyday assortments of snacks and convenience groceries while the majority of discount chains are concentrating more on using groceries and grocery related items such as household chemicals and laundry detergents as traffic builders.

Discount store retailers are telling *FM* that they can't compete with food stores or warehouse clubs or deep discount drug stores on packaged groceries unless they feature "price, price, price."

"Our shoppers just don't see our stores as a convenient place to pick up groceries," said one K mart manager. "We can get high velocity movement on packaged grocery products, but only when we feature them at super hot prices. That means we're mostly featuring gro-

ceries that we buy on deal and promote at margins usually less than 10%."

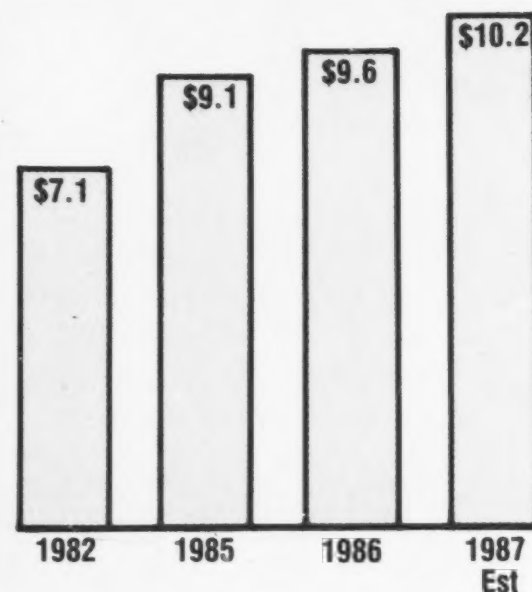
Discounters stress in-and-out promotions

In the last few years, with the exception of Wal-Mart and Venture, the major discount store chains have begun to cut back their permanent everyday sections of packaged dry grocery items to concentrate more on in-and-out promotional foods especially cereals, cake mixes, summer and winter beverages, salad dressings, jellies, pickles, etc.

K mart, for example, which used to carry a number of permanent planogrammed packaged grocery items through its distribution centers, is now primarily just stocking

Grocery Sale Trends

Total Grocery sales in non-food stores
(retail sales in billions)



Source: Malcolm Knapp Inc., New York

promotional foods that the chain only features on an in-and-out basis.

At the same time, K mart is also giving more store space and more promotional emphasis to its candy and other snack food lines as well as to paper goods and household cleaners and soap.

"We still promote packaged groceries," said a K mart source, "but not as intensely as we once did. Today our ads put a much greater emphasis on candies and other types of snack foods, and we still do a very strong job of advertising paper goods and household cleaners."

Drug chains stress everyday convenience

Meanwhile, the drug chains are becoming more committed to convenience foods as a "core category" and many chains are discovering that they can carry select packaged and refrigerated groceries every day and promote them not just as a traffic building value but as a convenience and service to the local neighborhood.

Walgreen's, which now has c-food sections in some 400 of its 1,200 stores, has had the most success with this style of merchandising, but chains like Eckerd Drug in Clearwater, Perry Drug in Pontiac, Mich., Longs in Walnut Creek, Calif., SuperRx in Cincinnati, K & B in New Orleans, Pay 'n Save in Seattle, etc., are also continuing to expand convenience food assortments.

The drug chains are also continuing to promote packaged groceries, paper goods, soft drinks, pet foods

and soaps and cleaners extensively, plus those chains that carry alcoholic beverages are doing a much more aggressive job merchandising that category.

Drug store retailers like Al Nehman of Dart, Don Gross at Genovese, Gary Lefferts at Austin Drug, all speak of promotional groceries as "traffic builders," designed to "provide an added incentive for people to shop our stores."

Most of the drug chains don't give permanent sections to their promotional groceries, instead they usually merchandise them on endcaps or in the high traffic promotional aisles sometimes referred to as Bargain Alley's and they often display their best buys in cut cases.

"We price so competitively on the grocery consumables," says a People's manager, "that we don't usually have a problem with residuals. They come in the store and within a few weeks, they've blown out and we've brought something else in."

"We advertise grocery items every week," says Al Nehman, sr. vp of merchandising for Dart Drug in Landover, Md. "We pioneered promotional groceries in the drug trade."

"And because we don't just dabble in this type of advertising, we've been able to maintain a nice steady market share growth pattern in what I think is one of the most competitive markets in the nation."

Snacks: growth area

By far, the biggest growth area for the grocery products in nonfood stores today, however, is snacks. Both the drug and discount store retailers call their snack food department one of the most "undeveloped" high potential profit and traffic building departments in their stores.

"Snacks are what we're pushing the strongest," says a Walgreen's source. "We advertise some four or five candy items every week in our circulars and we do almost as much with nuts and cheese balls and items like that." "Most shoppers don't think of drug chains or discount chains when they want snacks and candy," says one drug chain food buyer, "but Walgreen's has such an extensive snack and candy department and they promote it so much that their shoppers think of that area as a key department in the store."

Sources at Wal-Mart, K mart,

Zayre's and Venture make similar observations.

The discount chains also make their snack food departments highly visible to their shoppers, almost always locating them in the front of their stores, and snacks are featured in just about everyone's ads.

"Everybody will tell you that incremental sales are becoming harder and harder to get," says a source at Wal-Mart.

"Our strategy is to go after the traffic and low everyday prices on our consumables, plus to make the higher turning snacks like candies and soft drinks very visible in our stores."

Both the drug and the discount

store retailers also point out the difficulties they are having today in maintaining strong year-to-year growth in sales in existing stores.

"People can only buy so much toothpaste or so many radios or televisions," says a Venture manager. "But if they see groceries or snacks at a good price, they'll buy on impulse and they often buy multiples which gives us a better average sale."

"If you ask me why so many of us are getting into groceries, that's the answer. They create the traffic. They create impulse sales, and they help us generate the year-to-year sales growth we need in order to be successful."

America's Best Selling Foods: Popular Promotional Items



- Honey roasted nuts of all the major brands, Fisher, Planters, Eagle Snacks;
- Conventional cakes, mixes and frostings especially Betty Crocker and Pillsbury;
- Microwavable cake mixes like the new Pillsbury Microwavable cake mix;
- Breakfast cereals like Total and Wheaties;
- Summer Beverages like Gator Aid (Quaker), Lipton instant teas, Nestle's instant teas, Hi-C juice drinks, etc.;
- Soft Drinks especially Coke and Pepsi;
- Beers especially Coors, Bud, Miller, etc.;
- Dog food especially Alpo, Carnation, Ken L Ration in large sizes and cans;
- Cat Foods especially Puss 'N Boots, Tender Vittles, Purina in cans, moist packs and dry packages;
- Salad dressings especially Wish Bone and Seven Seas;
- Instant creamers especially Borden's Creamora;
- Winter Drinks especially Lipton teas, Hills Brothers coffee, Maxwell House, etc., and Carnation, Nestle's and Hershey's hot cocoa mixes;
- Candies especially big sized or adult bars like the M & M Mars King Size bars and the Hershey's Big Block Bar, granola bars like Quaker Oats Whipples and Dipps, boxed chocolates like Whitman's, and premium candies like Ferrero's Mon Cheri and Rocher Ferrero or Borden's Haviland;
- Salty snacks, especially Fisher, Eagle Snack and Planter nuts, Planter's canister snacks, Eagle Snacks, Borden's and Frito Lay chips;
- Microwavable popcorn, especially Betty Crocker's Pop Secret and Pillsbury's microwavable popcorn;
- Peanut butter especially Superman Peanut Butter and Jif;
- Jellies especially Welch's and Smuckers;
- Packaged rice especially Uncle Ben's;
- Pudding and jello mixes;
- Pickles especially Vlasic;
- Canned vegetables especially Green Giant;
- Canned juices & juice drinks like Ocean Spray, Tree Top, Seneca, etc.;
- Potato chips especially the hearty and Hawaiian style chips as well as these flavored chips: au gratin chips, jalapeno and cheddar chips, bar-be-que chips and spicy flavored chips.

How drug chains treat c-foods

Drug chains court "convenience minded" shoppers by expanding convenience food departments

Retail drug chains, trying to enhance their appeal to the "convenience minded shopper" are expanding their assortments of convenience style groceries.

Many chains including Walgreen's, Eckerd, Perry's and People's now have limited assortments of select convenience foods in all their stores and a large number are experimenting with expanded convenience food departments featuring canned and packaged groceries as well as refrigerated and frozen foods.

Retailers like Dave Peterson, vp of merchandising for Perry Drug in Michigan, say that convenience foods are a "growth area" for drug store merchants as well as an "opportunity to satisfy the convenience minded shoppers."

Today approximately 10% of all chain drug stores have at least a limited assortment of convenience foods, not counting their sections for candies, chips, nuts, soft drinks and other traditional snacks.

Most also have "convenience" departments for shoppers looking to purchase pet foods, household chemicals and paper goods as well as wine, beer and alcohol wherever liquor licensing is feasible.

Walgreen's

Walgreen's, which first started experimenting with c-foods back in 1979 with just a handful of stores, now has about 440 stores with full c-food departments, and management says they plan to add about 60 more in 1987.

In addition, almost all Walgreen stores carry at least some assortment of convenience foods, particularly milk, ice cream, cold soft drinks, and whenever possible cold beer and wine. All stores also have a full candy and snack section plus sections for pet foods, household chemicals, paper goods and laundry supplies.

Currently about 900 Walgreen's also have liquor departments, and Walgreen's top management says that it will continue to expand its liquor sections "wherever we can."

Walgreen's makes it a priority to keep prices in its c-food depart-



An estimated 25% of all chain drug stores have limited assortments of convenience foods including soft drinks, milk, bread, ice cream and snacks.



Chains like Walgreen's and Eckerd Drug regard c-foods as an "opportunistic" add-on category.

ments competitive with convenience food stores like 7-Eleven, and they always highlight the department with in-store signs, window banners and local advertising.

Typically Walgreen's keeps its c-food department to about 1,000 sq. ft., and typically the mix is somewhat customized to the individual markets. Suburban stores will give more facings to cereals than inner city stores because managers say that cereals sell in suburban stores while generally they don't turn that well in inner city stores.

On the other hand, inner city stores will carry more facings of items like canned soups, coffee, sugars, creamers, yogurt and chilled

juices and soft drinks because these types of items appeal to the office workers who are buying breakfast, lunch and snack items in Walgreen's c-food stores.

"The whole secret is knowing what your customers want and giving it to them," says one manager.

Eckerd's

Pete Agostino, the Corporate Merchandise Manager responsible for Eckerd's c-food sections, says that the best-selling items are the high tonnage consumables that people can eat "right in the store if they want to."

Agostino, whose background in-

cludes working for Pathmark Food & Drug stores as well as running a small chain of about 60 convenience stores, says he fashions his mix around the things that people tend to buy and use most frequently, such as milk, soft drinks, beer and snacks.

Right now, Eckerd has two cooler cases for soft drinks in all its stores, and the plan is to expand the selection as quickly as possible so that all stores also have milk, cold beer and eventually cold wine in the coolers.

Right now about 40 Eckerd stores also have mini-combination food sections and 30 of these stores also have microwavable food-to-go sections. All Eckerd stores also have snack and candy sections as well as household chemicals and supplies.

Like the snacks and household supplies, which Eckerd has always carried, the cooler sections are there to serve the convenience of the customer.

"The way customers use drug stores today is changing," says Agostino. "Unless they have a prescription they need filled, they only stop off on their way to and from work to pick up a fill-in item like a shaving cream. If they also need milk or a soft drink, they're likely to go to a food store and get their shaving cream there at the same time."

"We want the cold beverages in our stores so we can make it more convenient for shoppers to use us as a fill-in trip. That way we hope we'll keep the shaving cream sale plus pick up the incremental sale of the milk or soft drink."

The full Eckerd c-food department totals about 80 linear feet, excluding household chemicals, laundry supplies and pet foods which are not related departments.

The 12-ft. dry grocery section and the 3-ft. section for bread and snack cakes are only added in select stores where Agostino says district managers have identified a need or an opportunity for Eckerd to sell c-foods.

"The convenience food sale is an opportunistic sale for us," Agostino says. "It's an opportunity to get incremental dollars per store, but we can only find such opportunities on specific types of sites, so we let the district people tell us when and where they see a need for the convenience dry groceries."

SuperRx

SuperRx has cut back somewhat

Major Chain Drug stores: Who's Who in Convenience Foods

Chain	Total number of stores 12/86	Number of stores with convenience food departments
Walgreen's, Deerfield, Ill.	1300	430
Gray/Drug Fair, Cleveland, Ohio	468	281
Revco, Twinsburg, Oh	2000	200
Perry Drug, Pontiac, Mich.	203	189
SuperRx, Cincinnati, Oh.	500	150
K & B Inc., New Orleans, La.	147	140
Longs, Walnut Creek, Ca.	222	110
Pay 'n Save, Seattle, Wash.	106	106
People's, Alexandria, Va.	870	60
Eckerd, Clearwater, Fla.	1500	40
Genovese, Melville, NY	78	3

Source: Food Merchandising research



The mix in a chain drug convenience food department varies by neighborhood, but the dry packaged grocery assortment almost always includes juices, cereals, ketchups and relishes.

Convenience foods in discount stores

In the discount store field, most chains have stopped trying to carry foods every day to concentrate instead on just using foods as a traffic builder.

"We're not like drug stores," said a Target source. "We can't sell convenience. All we can offer our shopper is price."

However, Wal-Mart, which has a number of stores in small towns and country markets, and Venture Discount stores in the midwest, are both exceptions.

Wal-Mart faces less competition from food stores, and its small town stores can offer their customers the convenience of one-stop shopping.

Consequently Wal-Mart has an everyday food section that features about 100 sku's in some 80 ft. of shelf space. Except for the Thanksgiving/Christmas season, Wal-Mart maintains about three gondolas of food/grocery items every day.

The usual setup is for the candy, nut and chip section to lead into the packaged grocery section. The nonsnack assortment includes pickles, chili, juices, teas, etc.

Paper goods and household cleaners are in other sections of the store as they are in Walgreen's, and pet foods are usually in two locations, along the perimeter or the walls in large 25 and 50 lb. bags displayed on pallets and in a gondola that is usually toward the rear of the store.

Like Walgreen's, Wal-Mart does not usually promote its everyday sections in ads or circulars. Most of the sales come from displays and from in-store impulse sales.

Venture has a similar merchandising program. They carry more of the mainstream categories like cereals, pancake mixes, jellies and beverages.

Venture does advertise its foods, working basically on promotions of products carried in its everyday department.

on the overall size of its c-food sections. The chain currently has convenience foods in about 150 stores, but only 30 to 40 stores have full departments with extensive packaged and refrigerated groceries.

Five years ago, it wasn't uncommon for the refrigerated section in SuperRx's mini-combo stores to have about 24 doors. Now the average section is closer to 12 doors.

SuperRx sources say the c-food concept is practical for a drug store, but that it can be "overdone. The key is to provide convenience, but not to over-develop the food part of the business," said one source.

"You can't forget that you're a drug store first."

Perry

At Perry Drug headquartered in Pontiac, Mich., there are more than two-dozen stores with full convenience food sections plus limited assortments of convenience foods including milk and other cold beverage are now in over 93% of the chain's stores.

The full convenience food departments are in all Perry's 24 hour stores, and in select stores where there is no direct competition from traditional supermarket or convenience food stores.

The typical Perry convenience food department takes up about 30 linear feet and includes milk, juices, breads, cookies and other baked goods snacks.

Stores with the full convenience assortment have the 30 linear feet plus another 64 ft. of packaged and canned groceries.

Perry does not advertise its c-food sections and does not use any outside signage to attract new shoppers. "The c-food departments," says Peterson, "are for the convenience of the neighborhood shoppers and they're very visible to anyone walking into the store."

Perry, which is currently doing a direct product profit analysis on all its drug store merchandising categories, says that the c-food department is "standing up very well" as a profit center, even though it is supplied entirely by jobbers and food wholesalers.

"All 24 hour stores will definitely have full c-food departments as we open them," says Peterson, "and so will any other stores where we feel a need exists."

Milk is currently the only convenience food Perry is now promoting.



Many drug chains like to merchandise beverages, snacks or other consumables on the endcaps anchoring their c-food sections.

Drug stores: strategies for convenience foods

Chain drug store retailers have two primary merchandising strategies for convenience foods.

They either see the category as an opportunity to service a large base of regular everyday users as Mickey Kole does at Perry Drug or they see it as a chance to cater to a shopper "who hasn't got a food store nearby and who'll use us until something better comes along."

Walgreen's president Fred Canning's says his strategy is to make Walgreen's a "convenient, midweek fill in store".

"We're very competitive on basics like milk and coffee," says Canning, "and we'll continue to add food centers to new and existing stores wherever appropriate."

Many drug chain executives say, however, that it's virtually impossible for corporate management to know exactly how many c-food departments they will open in any given year.

"There is no such thing as a big charge that wins the battle once and for all," one source says. Instead, he compares the rolling out of convenience food departments to trench warfare. There are a lot of "little battles to be fought and won," he says.

Operations controls expansion

"Even Walgreen's," he says, "which has done the best job of all of us in developing c-foods knows about the little battles. You can identify the right location and go in and be very successful for a year or two.

"Then the local food store will get smart and clean up its act and put in scanners or extra help and suddenly people will go back to shopping there because they've made it more convenient again."

Or, as another source puts it, "the sleepy 7-Eleven you've been competing against will suddenly get tough and they'll lower their prices or start tying into the Southland promotions, and then you have a fight on your hands."

On average, drug store retailers who have c-food departments say that it's crucial to put them in the right stores and to stock them with a product mix that features the items that people buy most often. The corporate consensus also is that this is a business that has to be driven operationally.

"Convenience foods is not a department that can be controlled totally from the central offices," says Perry's Dave Peterson. "The field people know the individual markets best and they can spot a need, and react the fastest if that need disappears or if the market changes."

"Milk is definitely a planned purchase and a good traffic builder," says Peterson. "so we use it as a leader. We feel the rest of our sales, however, are motivated by impulse shopping and the need to make fill-in purchase."

People's

At People's Drug headquartered in Alexandria, Va., there are now about 60 stores with c-food departments compared to about 20 in 1982.

Here too, managers say the success is totally dependent on the mix, the neighborhood demographics and the external competitive market in each location.

Most People's managers say their departments have been very successful, turning about 10 times a year and doing a lot to create "new business for us."

A few, however, say that People's can't always be sure of success. "The situation can be fine for a while, then something will happen to change all that," said one manager. "We still don't know all the answers."

"But if food stores can be drug stores too," he added, "then why can't drug stores also be convenience food stores. Everybody today is taking a piece of someone else's market. Packaged groceries, laundry cleaners, pet foods, cold beers, these are all things we can offer our customers as a convenience."

"As I see it, if I can make their shopping trip more convenient, then my stores are ahead of the competition."